

Exhibit Number	:	_____
Commissioner:	:	<u>Susan Kennedy</u>
Adm. Law Judge	:	<u>James McVicar</u>
Witness	:	<u>Diana S. Brooks</u>

CALIFORNIA PUBLIC UTILITIES COMMISSION

ORA
Office of Ratepayer Advocates

**Report on the Application
of
California American Water Company
for
Consolidation of Rates in its
Felton and
Monterey Districts**

Application No. 04-08-012

*San Francisco, California
February 4, 2005*

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6 Monterey Districts
7
8

9 By Diana S. Brooks
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12 **I. Summary**

13 This Application requests the Commission to authorize the combining into one
14 ratesetting district California-American Water Company's (Cal Am) present
15 districts of Felton and Monterey. At present, the Commission determines the
16 rates for the two areas based on providing a reasonable return on investment and
17 recovering reasonable expenses for each district separately.

18 The Office of Ratepayer Advocates (ORA) has evaluated this plan in light of the
19 guidelines for district consolidation developed by the water industry and ORA's
20 predecessor, the Division of Ratepayer Advocates or "DRA", (herein after
21 referred to as the "DRA guidelines"), prior CPUC cases, the need for rate relief,
22 viable alternatives, impacts on ratepayers in both the Monterey and Felton
23 districts as well as their wishes, and the impact on regulatory workload. Cal
24 Am's application is insufficient to show that this water district consolidation is in
25 the public interest. ORA unequivocally recommends that the Commission reject
26 this unjustified proposal.

27 Cal Am's proposal fails to meet the DRA Guideline four-part test for prima facie
28 reasonableness – the districts are 45 miles apart, the rates are not comparable, the
29 sources of water supply are completely different, and the districts are
30 operationally different. Given this, Cal Am has the burden to show that the
31 benefits of rate consolidation outweigh the harms. It has failed to do so. There is
32 no evidence to show Felton is an impoverished community in need of being
33 subsidized by Monterey District ratepayers.

34 ORA is very concerned that many ratepayers in Felton do not realize that a rate
35 increase of 44.2% has already been authorized and is essentially being charged to

1 their (collective) account.¹ By July 2005 when a Commission decision may be
2 issued on this matter, Cal Am estimates that the ratepayers of Felton will owe
3 around \$258,000 in deferred rate increases, or about \$196 per Felton customer.
4 Cal Am requests the Commission authorize it to collect the balance accrued in
5 this account over a five year period via a separate surcharge.

6 ORA distinguishes between rate shock and the need for rate relief. ORA
7 recommends phasing in the previously approved 44.2% rate increase over a
8 period of 24 months to attenuate any accompanying rate shock that may
9 otherwise occur in Felton. ORA also recommends implementing a low-income
10 water assistance program which can target rate relief to those on fixed or low-
11 incomes to whom the new rates would impose undue economic hardship.

12 In addition to the proposal not meeting the DRA Guidelines, Cal Am's rate
13 consolidation proposal has no merit and is not in the public interest. ORA
14 recommends the Application be denied because:

- 15 • It is patently unfair to the ratepayers of Monterey.
- 16 • It eliminates existing Felton conservation discounts and instead rewards
17 those who consume the most water with the greatest subsidies -- more
18 than triple what the average ratepayer would get.
- 19 • The proposal serves to obfuscate the true cost of service of each district,
20 resulting in a loss of local control and accountability. Particularly in the
21 smaller district of Felton, the connection between what's being done and
22 what it costs Felton ratepayers would be broken.
- 23 • The Monterey District is rife with conflict, complexity and challenges.
24 Combining Felton and Monterey into one ratemaking district would
25 create considerable additional risk exposure for Felton ratepayers who
26 could end up subsidizing Monterey in the future.
- 27 • Cal Am's proposal could hinder public acquisition and municipalization
28 of the Felton water system – a matter which will be considered by the
29 voters of Felton shortly. Felton residents should not be foreclosed from
30 exploring that option, which they believe, offers lower rates and other
31 benefits.
- 32 • Contrary to reducing regulatory burdens on the Commission, this
33 proposal would add to them by requiring careful scrutiny of which costs

¹ Decision (D.) 04-05-023 (May 6, 2004) authorized Cal Am a \$254,700 (34.6%) rate increase for 2003 and a \$70,800 (7.1%) rate increase for 2004. The compounded effect of a 34.6% increase, followed by a 7.1% increase is a 44.2% increase. However, as a condition of the RWE merger, the 7.1% increase was pushed back to 2005, and was not accruing in the balancing account until January 1, 2005.

1 are separate and which are combined. While a portion of the rates would
2 be consolidated, Cal Am also proposes district specific rate components,
3 requiring more complex work when reviewing future rate cases.

- 4 • This is a no-win proposal. As of early December 2004, the Commission
5 had received 89 letters from ratepayers of both districts – all of them
6 opposing this rate consolidation plan. In addition, there was
7 overwhelming opposition to the plan at both the Monterey and Felton
8 Public Participation Hearings (PPHs).

9 ORA urges the Commission to adopt its alternate proposal to phase-in rates and
10 institute a low income water assistance program to address the issues of rate
11 shock in the Felton area as a result of the not yet implemented, 44.2% rate
12 increase approved in the last General Rate Case (GRC). ²

13 **II. Background**

14 Cal Am filed its Application (A.)04-08-012 to restructure and consolidate rates for
15 its Felton and Monterey districts on August 11, 2004. Cal Am also requested
16 authority to combine these two districts³ in the last GRC⁴, but the decision in that
17 case, D.04-05-023 issued on May 6, 2004, denied the request, noting that the
18 record did not support a finding that the advantages of district consolidation
19 outweigh the disadvantages. In denying the request, the decision stated on page
20 42 :

21 In this proceeding, no such clear picture has been presented for either Cal Am's
22 proposed consolidations or that of the intervenors. There has been no
23 examination of the customer effects in coming years of the very significant
24 capital projects that Cal Am anticipates in Sacramento District or Monterey
25 district. What has been presented is now out of date in that it still includes the
26 effects of the divested Montara district. The record is further complicated by the
27 recent Citizens and RWE acquisitions, the costs and benefits of which will
28 continue to be sorted out and reflected in district rate proceedings over the next
29 several years. We're troubled by Cal Am's proposal to shunt very large amounts
30 of current revenue requirements into a proposed WRAM to accumulate as an
31 interest-bearing obligation against Felton and Monterey customers in future
32 years.

33
34 For these reasons, the record in this proceeding does not allow us to find that the
35 advantages of district consolidation outweigh the disadvantages. However,

² D. 04-05-023.

³ Cal Am's original proposal was to consolidate the Montara and Felton districts with the Monterey District, for ratemaking purposes. However, this became a moot issue as a result of the then pending divestiture of the Montara District to the Montara Sanitary District (MSD). (D.04-05-023, pg. 3, Footnote 1.)

⁴ Application 02-09-030.

1 because the size of the rate increases that our authorized revenue requirements
2 would likely produce for Felton (which are discussed below), the public interest
3 would be better served by a timely consideration by this Commission of rate
4 consolidation proposals within an evidentiary showing that fully addresses the
5 issues identified above. We will therefore order that Cal Am make such an
6 application within ninety days of the adoption of this order.
7

8 In that same GRC decision, the Commission approved a 44.2% rate increase for
9 Felton -- 34.6% for 2003, and a 7.1% increase for 2004.⁵ Consistent with the
10 deferred step rate filing provisions adopted in the RWE acquisition decision, the
11 immediate rate increase in Felton would have been 34.6% in May 2004 when the
12 GRC decision was issued⁶, but the Commission delayed implementing the
13 increase at that time citing "rate shock" concerns.⁷ The Commission noted in
14 Finding of Fact 12, that "[t]he rate increases and rate levels that our adopted
15 revenue requirements would produce for the Felton District may lead to rate
16 shock for Felton ratepayers." Cal Am was not authorized to implement the rate
17 changes set forth in that order but instead the Commission required Felton
18 District rates be deferred into a balancing account until after a decision in the
19 current district consolidation proceeding. (Conclusions Of Law, 6, page 70.)

20 The balancing account, established by D.04-05-023 to track the difference
21 between revenues produced by current rates and those that approved in that
22 decision has been in effect since May 12, 2004. By the end of June 2005, Cal Am
23 estimates this account will have a balance of \$258,000 dollars, or approximately
24 \$196 per Felton customer. (See Appendix D.) The Commission also ordered Cal
25 Am to propose how to amortize the balances accrued in this Felton balancing
26 account in this current application.

27

III. Cal Am Proposal

28 To address the potential rate shock problem that implementation of the
29 approved rate increase could cause, Cal Am filed this application proposing the
30 following⁸:

- 31 a) that the revenue requirement for its Felton District be combined for
32 ratemaking purposes with the revenue requirements for its Monterey
33 district;

⁵ D.04-05-023, pg. 4.

⁶ D.02-12-068, Appendix B, page 2, Condition 1.

⁷ The 7.1% step increase for 2004 was delayed until January 1, 2005, so at the time the GRC decision was issued, Felton would have been facing a 34.6% rate increase.

⁸ A. 04-08-012, at page 2.

- 1 b) the consolidated rates be developed based on the combined revenue
2 requirement of the districts;
- 3 c) that the consolidated rates be implemented immediately;
- 4 d) that the development of the combined revenue requirement will not
5 include consolidation of the source of supply, water production and water
6 treatment costs;
- 7 e) that Felton District rates will not be affected either by the Monterey
8 districts current inverted rate design or by any of the past or future costs
9 associated with the efforts to develop one or more water supply projects
10 in the Monterey district designed to comply with the orders of the
11 California Water Resources Control Board ("SWRCB"), including SWRCB
12 orders WR 95-10 and WR 98-04;
- 13 f) that the Felton District will not be affected by the Monterey District past,
14 present and future costs associated with the efforts to either strengthen or
15 decommission any of the current dams in the Monterey district;
- 16 g) that Cal Am be authorized to recover the balance in the balancing account
17 from Felton District customers via a separate five-year surcharge,
18 beginning on the effective date of the final decision in this proceeding; and
- 19 h) that a water revenue adjustment mechanism (WRAM) account be
20 instituted to track all revenue variations between the rates approved but
21 not implemented in the Felton District in D.04-05-023 and the rates that
22 will be charged in the Felton District should the Commission approve this
23 rate plan.

24 Cal Am states that the effect of consolidated rates on the Monterey district
25 ratepayers is "negligible" – around 1% a year for most customer classes.⁹ Cal Am
26 further states that Felton ratepayers will benefit greatly from consolidated rates.
27 The company concludes that adoption of consolidated rates in the Felton District
28 would result in an overall rate increase for Felton District customers ranging
29 from 20% in 2005 to a projected 27% in 2019.

30 **IV. Data**

31 In Cal Am's initial Application, it submitted Exhibits A – I. On January 4, 2005,
32 the company submitted revised versions of Exhibits D, E, F and G, and labeled
33 them J, K, L and M to correct a mistake in the earlier exhibits. Then on January
34 14, 2005, in response to the ALJ's request, Cal Am also submitted Exhibits N, O,
35 P, and Q which were comparable to Exhibits J, K, L and M but updated to reflect

⁹ Application 04-08-012, Exhibit D, page 2.

1 the company's current requests in its GRC. Cal Am also submitted an additional
2 exhibit, Exhibit R, which showed the proposed combined rates under the GRC
3 scenario.

4 Cal Am Exhibits B and C showed 2003 rates which were still in effect for
5 Monterey during 2004; and 2003 authorized, but not yet implemented, rates for
6 Felton. The Commission approval of the RWE acquisition of American Water
7 Works included one-year deferred step rate filing provisions, which pushed rates
8 authorized for 2004 back to 2005. These provisions applied to both Monterey
9 and Felton. New rates, replacing those shown in Cal Am's Exhibit C, went into
10 effect in Monterey on January 1, 2005.¹⁰ And the authorized, but not yet
11 implemented rates for Felton, shown in Cal Am's Exhibit B, also increased on
12 January 1, 2005 to reflect the full 44.2% previously authorized rate increase.¹¹
13 Because the rates in Exhibits B and C are no longer applicable to evaluating the
14 current application ORA asked Cal Am to provide ORA with updated tariff
15 sheets for the 2005 updates to both Monterey and Felton rates. These updates
16 can be found in ORA Appendices B and C respectively. ORA relies on these 2005
17 updates when evaluating the impacts of the Application.

18 Exhibits N, O, P, Q and R were supplied by Cal Am to provide data in this
19 proceeding on the impact of their GRC application. Cal Am will file GRCs in
20 February 2005 for Monterey and Felton for the years 2006, 2007 and 2008.
21 Exhibits N, O, P, Q and R are based on Cal Am's Preliminary Application (PA)
22 submitted to ORA on December 7, 2004.¹² The PA seeks general rate increases for
23 water service and then makes a number of special rate requests in Monterey. In
24 the PA, the Cal Am requests general Monterey rate increases of 32.79% for 2006,
25 4.79% for 2007, and 2.83% for 2008; and general Felton rate increases of 108.26%
26 for 2006, 3.07% for 2007 and 0.39% for 2008.¹³ In their special requests for

¹⁰ Cal Am's **Exhibit C**, shows the quantity rate for water per 100 cubic feet is \$3.617 and the service charge for 5/8" meters at \$12.63/month and for 2" meters at \$101.04/month. The comparable 2005 quantity rate for water per 100 cubic feet as \$3.1371 and the service charge for 5/8" meters at \$13.21/month and for 2" meters at \$105.68/month using standard PUC rate design. (See ORA Appendix C.) These rates were provided to ORA in response to ORA Data Request #4, Question 8.

¹¹ Cal Am's **Exhibit B** for Felton, shows the quantity rate for water per 100 cubic feet is \$3.0528 and the service charge for 5/8" meters at \$24.86/month and for 2" meters at \$198.92/month. The 2005 authorized, but not yet implemented, quantity rate for water per 100 cubic feet is now \$3.731 and the service charge for 5/8" meters at \$28.16/month and for 2" meters at \$225.20/month. (See **ORA Appendix B**.) These rates were provided to ORA in response to ORA Data Request #4, Question 6 & 7.

¹² California-American Water Company's Proposed Application to Increase Its Rates for Water Service in the Monterey District (TEND1701) and Proposed Application to Increase Its Rates for Water Service in the Felton District (TEND1801).

¹³ These numbers are preliminary and could be revised once the final application is filed in the next few weeks.

Monterey, the company seeks approval for various new fixed monthly and usage-based surcharges for Cal Am's stranded costs for Carmel River Dam, pre-construction costs for the proposed Coastal Water Project (CWP), contribution to offset actual construction costs and part of the carry costs of constructing the CWP.¹⁴ Some of these costs are included in Exhibits N, O, P, Q and R.¹⁵

Table 1: Index of Exhibits and Data

	Original Application	Revised for error	GRC Update(1)	2005 Update
Current rates in Felton	A			
Monterey standard rates, based on 2003; in effect through 2004	B			ORA Testimony, Appendix B
Felton authorized, but not yet implemented, rates for 2003 & 2004	C			ORA Testimony, Appendix C
Monterey Operating Revenues	D	J	N	
Felton Operating Revenues	E	K	O	
Monterey Bill Comparison	F	L	P	
Felton Bill Comparison	G	M	Q	
Summary of Combined Rates			R	
(1) These exhibits include SDWBA and WRAM surcharge in Felton, and MPWMD surcharge in Monterey, and are therefore not directly comparable to J, K, L and M.				

ORA bases its primary analysis on Exhibits J, K, L and M for years 2006 through 2019, but does not use the 2005 projected rates Cal Am uses in these exhibits. Instead, as mentioned above, ORA used current 2005 tariff rates now in effect in Monterey (as shown in ORA Appendix C) for 2005 and the 2005 approved, but not yet implemented, rates for Felton (as shown in ORA Appendix C) since *Cal Am informed ORA that if this consolidation application were approved, as requested, before the end of 2005, it would be the 2005 Monterey rates that would be in effect in Felton for the rest of 2005 and not those in Appendix C.*¹⁶

ORA obtained a complete set of electronic Excel spreadsheets supporting the Exhibits in this application from Cal Am in October 2004. And on January 5,

¹⁴ See Appendix K for a list of Cal Am's special rate requests that may have rate impacts.

¹⁵ Exhibit R shows a fixed monthly surcharge for recovery of Carmel River Dam stranded costs and CWP pre-construction cost at \$3.35 in 2006, \$4.54 from 2008 – 2011. It then drops down to \$3.58 in 2012 and \$1.85 in 2013 after which it ends. It is not clear from Exhibit R whether any of the other special requests are included in Exhibits N and P or not.

¹⁶ Cal Am response to ORA Data Request #5, Question 12. Exhibits B and C were based on 2003 authorized rates, which were in effect in Monterey through the end of 2004; and being tracked in the deferred revenue balancing account in Felton through the end of 2004.

1 2005 Cal Am provided ORA with updated spreadsheets to support Exhibits J, K,
2 L and M.

3 ORA is concerned about the effects of the SDWBA and WRAM surcharges in
4 Felton and the MPWMD surcharge in Monterey, but was not able to obtain data
5 from Cal Am that applied these surcharges consistently across all four Exhibits J,
6 K, L and M.¹⁷ Given that, ORA chose to rely on Exhibits J, K, L and M as
7 presented.

8 ORA reviewed Exhibits N, O, P, Q, and R, and uses this data as an extra point-of-
9 reference it reviewing this Application. These exhibits incorporate the impacts of
10 the SWDBA and the WRAM in Felton and the MPWMD surcharges in Monterey
11 and use actual 2005 numbers as shown in ORA Appendices B and C. ORA was
12 not able to obtain the complete set of the underlying spreadsheets supporting
13 these exhibits until February 3 and is still in the process of reviewing these
14 exhibits.

15 Appendix A provides a summary of key data values underlying Exhibits J, K, L
16 and M as well as authorized 2005 rates that ORA relied on in its analysis.

17 **V. Evaluation**

18 In evaluating whether the proposed rate consolidation serves the public
19 interest, ORA considered:

- 20 • reason for proposed rate consolidation;
- 21 • the need for rate relief in Felton;
- 22 • whether other viable and more equitable alternatives to solving the Felton
23 rate shock problem exist;
- 24 • whether the consolidation proposal meets the criteria set forth in the DRA
25 guidelines for district consolidation;¹⁸
- 26 • whether the Applicants made a sufficient showing;
- 27 • the impacts on ratepayers of both Felton and Monterey of the proposed
28 consolidation;

¹⁷ Cal Am provided ORA with revised versions of Exhibits J and K that incorporated the surcharge information in response to ORA Data Request #5 on January 29, 2005. However, the company refused to provide similar updates to Exhibits L & M stating that it would be ‘unduly burdensome’ and ‘time consuming’; they suggested ORA do the work instead. ORA performed some limited calculations in this regard for 2005, but did not update the company’s Exhibits L and M for them.

¹⁸ See Section E for a full discussion of the DRA Guidelines.

- 1 • impacts on the allocation of the Citizens – Cal Am merger costs and
2 benefits;
- 3 • congruity with past Commission decisions approving consolidated rates;
- 4 • the effect of the proposal on the regulatory caseload for both Commission
5 staff and Cal Am; and
- 6 • other impacts this consolidation may have on ratepayers' bills and service
7 quality.

8 **A. Cal Am's justification for this rate consolidation proposal.**

9 Cal Am argues that "even though its proposal does not exactly fit the [DRA]
10 Guidelines," the public interest justifies approval of the proposal because there is
11 a need for rate relief in the Felton District and consolidated rates would have a
12 minimal impact on the Monterey District. (Application, pg. 14, lines 15 – 18.) Cal
13 Am says that the motivation behind this consolidation request is to improve rate
14 and revenue stability. The company states that, '... rate consolidation improves
15 affordability for customers of small systems and protects against rate shock
16 because changes in costs are spread across a larger customer base." (Reply to
17 Protests, pg. 13, lines 15 – 20.) ORA disagrees that this proposal is in the public
18 interest.

19 **B. ORA believes the need for long term rate relief in Felton does**
20 **not justify consolidation of rates with Monterey.**

21 Cal Am's proposal, while offering short-term rate reductions for Felton, does
22 nothing to address the long-term need for affordable water service. Cal Am's
23 rate consolidation proposal merely shifts some of Felton's costs to Monterey. As
24 will be explained in this report, Monterey is a complex district facing critical
25 water supply problems and already high water rates. Requiring Monterey to
26 subsidize Felton is unfair. And Felton is at risk for funding a proportionate share
27 of future Monterey district costs. Cal Am's proposal is not a satisfactory solution
28 to the immediate problem in Felton.

29 As stated above, in the last GRC for the Felton District, the Commission
30 authorized a total 44.2% rate increase for Felton. The Commission was
31 concerned that this large rate increase would lead to rate shock for Felton
32 ratepayers. The Commission ordered Cal Am not to implement the new rates
33 then, but instead to defer the approved rate increases and accrue them in a
34 balancing account to be paid later, by Felton ratepayers, after a decision on this
35 consolidation application is made.

1 ORA is very concerned that (1) many ratepayers in Felton do not realize that a
2 rate increase of 44.2% has already been authorized¹⁹, and is essentially being
3 charged to their account²⁰ and will eventually need to be paid; and (2) since last
4 June the amounts accruing in this balancing account are increasing by close to
5 \$20,000 per month on average.²¹ (This is approximately \$15 per customer per
6 month.) Many Felton ratepayers will be shocked to learn they are already on the
7 hook for this increase.

8 In the Southern California Water Company (SCWC) application for single tariff
9 pricing for eight Southern California water districts²² the Commission concluded
10 that, "[B]ased on the *compelling need for rate relief* in some of the smaller districts in
11 the company's Region III, and on the demonstrated minimal impact of single
12 tariff pricing on the other districts of Region III, as well as on the record as a
13 whole, our order today grants the application with modifications." [Emphasis
14 added.] Some of those districts were in impoverished areas.

15 Felton is not the same type of community. In response to an ORA data request,
16 Cal Am provided data on the median and average incomes of households in the
17 Felton and Monterey Districts as shown in Table 1.²³

¹⁹ Part of this confusion stems from a phone call made to each Felton ratepayer after D.04-05-023 was issued last May, in which a recording made by Steve Leonard, Monterey District General Manager, told customers, "Today the California Public Utilities Commission approved plans to keep Felton water rates at their current level. They will consider a plan to consolidate our Felton rates in the coming months. This good news means water rates won't go up at this time. You'll receive more information about this issue by mail. If you have any questions about any water issues, please visit our site at www.feltonwaterfacts.com or call us at 359-1915." While perhaps technically correct, ORA finds this message highly obfuscatory and misleading.

²⁰ The revenue shortfall between so-called current rates, and the authorized, but not yet implemented rates that are 44.2% higher, is being accumulated in a balancing account that all ratepayers of Felton are obligated to pay, unless they move out of the Felton district prior to payment arrangements being made. This is like those offers to buy a mattress today, and make no payments until next April. It may seem free, but the price of that mattress is still charged to the customer's credit card and he/she is fully obligated to pay those charges (plus interest incurred during the so-called "free" period), eventually. Likewise, the customers of Felton are obligated to pay the full amount of the new authorized rates up until the point some other arrangement is worked out.

²¹ See Appendix C for a table of actual and estimated amounts in this balancing account through June 2005.

²² Application Of Southern California Water Company(U 133 W) For Authority Pursuant Public Utilities Code Section 454 To Restructure The Water Rates Of Its Barstow, Calipatria-Niland, Claremont, Desert, Orange County, San Dimas, San Gabriel And Wrightwood Districts Into Region-Wide Tariffs, D.00-06-075, page 2.

²³ Cal Am Response to ORA Data Request #2, Question 11.

Table 2: Median and Average Income in Felton and Monterey Districts

	Median Household Income	Average Household Income
Felton	\$67,562	\$84,124
Monterey	\$52,805	\$74,372

* based on most recent census data available

These statistics show that Felton is not an impoverished area. They also show that Felton district has somewhat higher median and average household income than the Monterey district. Further data supplied to ORA by Cal Am show that the average water bill for the year October 2003 through September 2004 was \$46.44 in Felton (for 9.16 units of water) and \$30.37 in Monterey (for 7.64 units of water).²⁴ However, this snapshot does not give a complete picture. Looking forward, Cal Am estimates steep increases in Monterey rates and bills. In less than two years, a residential customer in Monterey using 10 units of water will be paying a higher bill than a similar customer in Felton.

Table 3: Comparison of Stand Alone Residential Monthly Water Bills

10 Ccfs water						
	2005	2006	2007	2008	2009	2010
Felton	\$55.65	\$68.69	\$72.66	\$76.53	\$80.38	\$84.19
Monterey	\$44.58	\$61.90	\$76.36	\$99.08	\$136.66	\$138.73
Difference	-\$11.07	-\$6.79	\$3.70	\$22.55	\$56.28	\$54.54
Monterey % higher/lower than Felton	-19.89%	-9.88%	5.09%	29.47%	70.02%	64.78%
*2005 based on authorized 2005 rates (See Appendix B & C)						
*2006 - 2010 from Cal Am Exhibit L and M.						

Table 3 underscores the need for more focused long term attention on issues of water affordability in both districts.

ORA believes it is unfair to require Monterey ratepayers to subsidize the Felton district. Nevertheless, Felton currently is faced with an already approved 44% rate increase. The Missouri Public Service Commission once reasoned, "rate

²⁴ Cal Am response to ORA Data Request #1, Question 3.

1 shock is the result of rate *changes* not rate *levels*".²⁵ The Commission was
2 understandably concerned about the potential for rate shock in Felton, as the
3 approved increase represented a huge jump from existing rates.

4 **C. ORA believes that consolidating the Felton and Monterey**
5 **Districts is an inappropriate response to rate shock in Felton.**

6 ORA believes something needs to be done to mitigate any rate shock for Felton
7 ratepayers, but rate consolidation with Monterey is not the solution. Cal Am's
8 proposal is unfair and only serves to obfuscate the cost-of-service ratemaking
9 process. In exchange for short term rate reductions, it exposes Felton customers
10 to significant rate risks in the long term.

11 Felton is a community with a viable small water system on a stand-alone basis. It
12 is not an impoverished district or one that is economically at risk. The water
13 system itself is straightforward and self-contained. There is sufficient high-
14 quality water to meet the demand. Its relatively new water treatment plant was
15 financed with Safe Drinking Water Act Loan funds and has excess capacity.
16 Customer growth is minimal to nonexistent. There is no industry or agriculture
17 in the area. In its workpapers, Cal Am projects increases in water revenue
18 requirement in the range of 4% to 5% a year -- through 2019.²⁶

19 Consolidated rates in this case are unnecessary, and offer no protection from rate
20 hikes as a result of Monterey's unique needs in the future. There are no grounds
21 for causing Monterey district ratepayers to incur additional rate burdens to
22 subsidize the Felton district when other methods to mitigate the potential rate
23 shock in Felton exist.

24 Instead of rate consolidation, **ORA recommends an 18 month phased-in**
25 **approach to implementing the 44.2% Felton rate increase that was previously**
26 **authorized** in D.04-05-023, but deferred pending a solution to the rate shock
27 problem. (See Section K, Part 1 for a description of ORA rate phase-in proposal.)
28 ORA believes this approach is both fair and equitable to both districts.

29 In addition, ORA is concerned about the portion of the Felton District consisting
30 of low and fixed-income households for whom the new rate levels could impose
31 undue economic hardship. These customers do need rate relief. In addition to
32 the ORA alternative of a phased-in approach to the rate increase, **ORA**

²⁵ *Consolidated Water Rates: Issues And Practices In Single Tariff Pricing*, September 1999. A Joint Publication Of The US Environmental Protection Agency and The National Association Of Regulatory Utility Commissioners, page 65.

²⁶ Cal Am Excel file "*Combined Monterey and Felton – Updated for Error*", worksheet "Felton 9-2". This file was supplied to ORA in response to ORA Data Request #3 as supporting documentation to go with Exhibits J, K, L and M.

1 recommends the Commission consider a more targeted solution that would
2 provide increased assistance to these low-income water ratepayers in Felton,
3 rather than a solution that subsidizes all Felton customers -- many of whom
4 can surely afford the new Felton water rates -- at the expense of Monterey
5 customers. Cal Am has not made a convincing case that the ratepayers of
6 Monterey, who have lower average and median incomes, should be subsidizing
7 Felton ratepayers. (See Section K, Part 2 for ORA's recommendation on this.)
8 Nor has Cal Am justified why Monterey ratepayers, whose rates and bills will
9 exceed those in Felton within a few short years, should be consolidated with
10 Felton.

11 **D. Rate consolidation doesn't necessarily lower the risk for water**
12 **customers.**

13 ORA acknowledges that, in some limited cases, there may be merit in single tariff
14 pricing or consolidated water rates on a larger regional basis where there are
15 enough different participating water systems with similar characteristics that
16 they all mutually benefit from equalizing the rates.²⁷

17 However, asking a complex district like Monterey to subsidize Felton -- a non-
18 contiguous, non-interconnected simple district with a higher median income --
19 makes no sense whatsoever. Monterey has its own water supply issues and will
20 surely be facing its own huge water rate increases in the coming decade to pay
21 for the stranded costs related to the Carmel River Dam and Reservoir project that
22 is no longer viable, the retrofitting of San Clemente Dam, the construction of the
23 proposed Coastal Water Project (CWP) -- a desalination plant on Monterey Bay
24 and the Seaside aquifer storage and recovery project. Cal Am's proposal would
25 not lower future rate spikes for Monterey ratepayers.

26 Further, rate consolidation exposes Felton ratepayers to the risk of future
27 extraordinary costs in Monterey. While the Application specifically excludes the
28 costs of water supply, water production and water treatment as well as some
29 other costs from the combined revenue requirement, the wording is vague and
30 unclear. For example, Cal Am proposes to exclude "any of the past or future
31 costs associated *with the efforts to develop* one or more water supply projects in the
32 Monterey district designed to comply with the orders of the SWRCB".
33 [Emphasis added.] This is entirely too vague. It is not clear if the phrase 'efforts
34 to develop' includes construction costs, or operations and maintenance costs or
35 not. Cal Am, in response to ORA's data request states that it will keep
36 operations and maintenance costs separate for these projects, but ORA

²⁷ See Appendix I for background on ratemaking, and differences between district and consolidated rates.

1 recommends that Cal Am be required to show the detailed components of what
2 is and what is not included in the combined revenue requirement.

3 It is also unclear if all costs of the CWP, for example, would be excluded if the
4 project capacity exceeds that necessary to meet the orders of the SWRCB. If the
5 Commission decides to approve this application, ORA recommends specifically
6 excluding all costs related to the CWP, and all past, present or future costs
7 associated with any dams or dam proposals in the Monterey district.²⁸ This
8 would include past, current and future dams.

9 In response to a question about how the Endangered Species Act (ESA)
10 compliance costs would be handled under a consolidated rate scheme, Cal Am
11 said it all depends on how the costs are booked:

12 If the costs are booked as plant in service, then they will be allocated to the
13 combined entity. If the costs are tracked in memo accounts and recovered as
14 surcharges, they will not be charged to the combined entity, but will be
15 recovered from customers in each district individually, depending on where the
16 cost was incurred. If the charges are to a water production expense account, they
17 will not be allocated to the combined district. If the charges are to a distribution
18 expense account, they will be allocated to the combined district. If the charges
19 are for a fine -- they will not be allocated to the combined district. (Response to
20 ORA Data Request #2, Question 17.)

21 Obviously, separating all these costs will add complexity and require extra
22 scrutiny by Commission staff. Even with more specificity, there are no
23 assurances of keeping costs separate in perpetuity or even over the next thirty
24 years. As time goes by, it may become increasingly difficult to say with certainty
25 what is or is not within the boundaries of these projects. The capital needs of
26 Monterey and Felton are so dissimilar that tiny Felton will be at a huge risk for
27 subsidizing Monterey's costly projects in years to come. While Felton's
28 proportionate share of the combined customer base is only around three
29 percent²⁹, three percent of a large capital project like the Coastal Water Project --
30 estimated to cost \$170 million -- would be over \$5 million, a disproportionately
31 large cost for a small area like Felton. (ORA notes that Cal Am has stated that
32 this project is excluded from the combined revenue requirement but questions
33 remain as to whether all of it will be excluded. And similar projects in the future
34 may not be.)

²⁸ Cal Am qualifies their exclusion of dam costs. In the Application, at page 2, Cal Am proposes to exclude "present and future costs associated with the efforts to either strengthen or decommission any of the current dams in the Monterey district" rather than all costs.

²⁹ There are approximately 1300 customers in Felton and 39,000 in Monterey. The combined district would therefore have 40,300 customers. Felton's share of the total is 3.23%.

1 Cal Am attempts to sugar coat its rate consolidation proposal, painting it as one
2 big golden opportunity for Felton. ORA, on the other hand, sees red flags. Cal
3 Am has not shown that water district consolidation in this case is in the public
4 interest. Rate consolidation should offer mutual benefits, not increased cost
5 burdens or increased risk.

6 **E. DRA Guidelines**

7 In 1992, in an attempt to reduce the workload of processing rate cases,
8 DRA and the large water utilities jointly developed guidelines to judge the
9 feasibility of proposals to combine districts.³⁰ That agreement established
10 guidelines consisting of four characteristics or criteria to be considered in
11 evaluating proposed consolidations: proximity, rate comparability, similar water
12 supply and operation.

13 The agreement also provides that no districts would be combined for the
14 express purpose of having one district subsidize another. Further, it states on
15 page 3 that the “intent of this combining of districts is to reduce the regulatory
16 caseload for both the Public Utilities Commission Staff and the individual water
17 utilities without adverse effect on the utilities’ customers.”

18 In considering the weight to give these guidelines, ORA acknowledges
19 that should a proposal not meet the Guideline criteria, it may still be in the public
20 interest. Other factors would then need to be weighed and considered. As
21 stated in D.00-06-075 on page 27, the “[DRA] Guidelines were intended to set
22 criteria for single tariff pricing that, when met, establish prima facie
23 reasonableness of the proposed consolidation.” However, the “[G]uidelines
24 implicitly permit proposals for broader rate consolidations, with the
25 understanding that such proposals are likely to be protested by the advocacy
26 staff in order that a full record can be developed for the commission
27 consideration.”

28 Applying these guidelines to the districts in question, ORA Cal Am’s
29 proposal fails all of them. Specifically, ORA finds the following:

30 **1. Proximity**

31 *The districts must be within close proximity to each other. It would not be a requirement*
32 *that the districts be contiguous as it is recognized that present ratemaking districts*
33 *consist of separate systems that are not connected. It was suggested that districts within*
34 *10 miles of each other would meet the location criteria.*

³⁰ "Guidelines for Combining of Water Utility Districts for Ratemaking and Public Utilities Commission Reporting Purposes", August 20, 1992, by ORA and representatives of the Class A water utilities.

The proposed consolidation fails the proximity standard. Felton and Monterey are approximately 45 miles apart. They are in different counties, in distinct watersheds: Felton is in Santa Cruz County in the San Lorenzo Valley watershed, and Monterey is in Monterey County in part of the Carmel River Valley watershed and the Pajaro River watershed. The two systems are not contiguous nor are their water systems physically connected.

2. Rate Comparability

Present and projected future rates should be relatively close with rates of one district no more than 25% greater than rates in the other district or districts. To lessen the rate impact of combining districts it may be necessary to phase-in the new rates over several years.

Cal Am claims that the projected Monterey district quantity rates developed according to the Commission standard rate design and the projected quantity rates for Felton districts shown in Exhibit F and Exhibit G are within 25% of each other. Cal Am does not mention the service charge rates. ORA analysis shows otherwise.

Presently, as shown in Table 4, the quantity rates are within 25% of each other. However, within a few short years these rates radically diverge, with Monterey rates becoming more than double those of Felton. ORA analysis also shows that after 2010, the quantity rates for Monterey are always at least 60% higher than Felton's quantity rates.

Table 4: Quantity Rate Comparison (Felton and Monterey, Stand Alone)

Per Ccf	Authorized					
	2005	2006	2007	2008	2009	2010
Felton quantity rate (Exh M)	\$3.73	\$4.82	\$5.04	\$5.26	\$5.47	\$5.68
Monterey quantity rate (Exh L)	\$3.14	\$4.47	\$5.84	\$8.05	\$11.75	\$11.88
Change from Felton rates	-15.8%	-7.3%	15.8%	53.1%	114.8%	109.0%

ORA also analyzed projected meter rate comparability from 2005 to 2019. Table 5 below shows projected meter charges and differences through 2010.

Table 5: Meter Rate Comparison (Felton & Monterey, Stand Alone)

Per month	Authorized 2005	2006	2007	2008	2009	2010
Felton 5/8" meter rate	\$28.16	\$32.57	\$35.06	\$37.48	\$39.88	\$42.24
Monterey 5/8" meter rate	<u>\$13.21</u>	<u>\$17.20</u>	<u>\$17.99</u>	<u>\$18.62</u>	<u>\$19.18</u>	<u>\$19.96</u>
Difference	-\$14.95	-\$15.37	-\$17.07	-\$18.86	-\$20.70	-\$22.28
Change from Felton Rates	-53.09%	-47.20%	-48.68%	-50.32%	-51.91%	-52.74%
Felton 2" Meter Rate	\$225.20	\$260.60	\$280.46	\$299.85	\$319.06	\$337.91
Monterey 2" Meter Rate	<u>\$105.68</u>	<u>\$137.60</u>	<u>\$143.92</u>	<u>\$148.96</u>	<u>\$153.44</u>	<u>\$159.68</u>
Difference	-\$119.52	-\$123.00	-\$136.54	-\$150.89	-\$165.62	-\$178.23
Change from Felton rates	-53.07%	-47.20%	-48.68%	-50.32%	-51.91%	-52.74%
* Data for 2005 Cal Am authorized rates for Felton and Monterey (See Appendices B & C respectively) Other years from Cal Am Exhibits L & M.						

As Table 5 shows, the 2005 Monterey rate for the monthly service (meter) charge is 53% less than the 2005 approved, but not yet implemented, rate for Felton. Even when the Felton conservation discount is applied to the service charge, the decreases (from Felton to Monterey) are still in excess of 41%.³¹ The closest the projected Felton and Monterey meter rates ever get is in 2006, when Monterey meter rates are 47.2% less than Felton meter rates. Between 2008 and 2019, Monterey rates are consistently less than half of the Felton meter rates.

Cal Am's proposal fails the rate comparability prong of the DRA Guidelines when both present and projected quantity and meter rates are considered.

3. Water Supply

Sources of supply should be similar. If one district is virtually dependent upon purchased water, while another district has its own source of supply, future costs could change by a greater percent for one district versus the other. This could result in significantly different rates in the future even if present rates were quite similar.

The proposed consolidation fails the water supply guideline as well. The sources of water supply at present are not at all the same and there is no indication that they ever will be.

Felton is a small self-sufficient water district of around 1300 customers located in the redwood rainforest. Annual rainfall in 2003 was a little over 40". All water for the district is surface water taken from three springs. The district has no industrial or agricultural influence and water is of high quality. Felton has one relatively-new treatment plant which was paid for by ratepayers with Safe

³¹ See Table 7 for detailed comparison of meter and quantity rates in Felton on a stand-alone versus consolidated basis.

1 Drinking Water Loan and brought on-line in 1997 to meet the requirements of
2 the Surface Water Treatment Rule. The plant capacity is sufficient to meet
3 demand. There is little to no growth in the Felton area, so no new sources of
4 water are needed. Felton has five storage tanks with a total storage capacity of
5 close to 1 million gallons. There are six pumping stations. Upgrades to the
6 district include replacing seventy-year-old 2" mains with 8" mains.

7 The Monterey district is quite different. Cal Am serves approximately 39,000
8 customers in the cities of Monterey, Carmel-by-the-Sea, Pacific Grove, Carmel
9 Valley, Sand City, Del Rey Oaks and part of Seaside, much of Carmel Valley and
10 the Highway 68 corridor, and several other unincorporated areas of Monterey
11 county. The area is semi-arid with only 18" of annual rainfall in 2003. The
12 principal sources of water supply are limited surface water withdrawals from the
13 reservoirs behind the San Clemente and Los Padres dams on the Carmel River,
14 multiple wells along the Carmel River and another eight wells in Seaside
15 drawing from the Seaside aquifer. There are five storage tanks with a capacity of
16 23.5 million gallons. There are 80 pumping stations. There are eight water
17 treatment plants, some doing filtration and chlorination, some doing iron and
18 manganese removal, and others removing hydrogen sulfide. Numerous
19 upgrades are being proposed, but ORA was unable to obtain cost estimates of
20 these upgrades prior to the GRC filing.

21 The area has had longstanding critical water supply problems. The State Water
22 Resources Control Board (SWRCB) ruled in Order 95-10 that Cal Am was
23 illegally diverting 10,730 acre feet from its Carmel Valley wells and ordered Cal
24 Am to develop and implement a plan to replace this water, which represented
25 almost 70% of the district's water supply. Cal Am must also meet in stream flow
26 requirements to protect wildlife and riparian habitat and provide adequate
27 drought protection for existing water customers. Cal Am's attempt to build
28 another dam on the Carmel River was thwarted and it is now moving forward
29 with Plan B, the Coastal Water Project(CWP) – a 14 to 18 million gallon per day
30 (MGD) desalination plant on Monterey Bay combined with an aquifer storage
31 and recovery project in Seaside.³² Preliminary estimates for the capital costs of
32 this project run \$170 to \$195 million and depend on whether the project is built
33 on a stand-alone basis or in collaboration with other regional partners.

³² Application 04-09-019, page 9 & 10. A stand-alone CWP is comprised of components 1,2, & 3 (Carmel River replacement, Seaside aquifer replacement, and future needs of Monterey peninsula) for a total of 15,302 AFY, or 13.66 MGD. A Regional CWP allocates additional capacity for Marina Coast Water District and Moss Landing, Castroville and North Monterey County for a total of 20,272 AFY, or 18.1 MGD.

1 The San Clemente Dam is silted up and seismically unsafe. Estimates to retrofit
2 or remove the dam run from \$30 million to \$50 million. There are substantial
3 compliance issues with the ESA on the Carmel River and substantial fines for
4 violations. Most district customers pay a 7.125% surcharge to the MPWMD for
5 Carmel River environmental mitigation expenses. Cal Am carries out additional
6 activities to comply with the ESA.

7 The Monterey Peninsula is prone to drought as well. Cal Am must comply with
8 MPWMD Ordinance 92 which defines a seven stage program for mandatory
9 water conservation leading up to water rationing in times of critical drought.

10 To manage the water supply constraints, Cal Am implemented per capita rates
11 based on lot size, number of residents, and number of large animals and an
12 adjustment for winter and summer months. In addition, last summer to avoid
13 fines from over drafting the Carmel River, Cal Am instituted an inverted rate
14 structure.³³

15 The Monterey Peninsula Water Management District (MPWMD) has limited
16 pumping of the Seaside Aquifer as well. In addition, Cal Am has filed a lawsuit
17 to adjudicate its water rights in the Seaside groundwater basin. One of the issues
18 in the lawsuit concerns their authority over the basin versus that of MPWMD.

19 Both systems employ the system wide distribution and monitoring equipment,
20 SCADA.

21 Clearly these two districts have radically different sources of water supply. They
22 fail to meet the similarity test for water supply criteria.

23 4. Operations

24 *The district should be operated in a similar manner. For example, if a single district*
25 *manager presently operates two or more districts and the billing system is common to the*
26 *same district; such an operation would support the combination of the districts.*

27 Other than having a single district manager who presently operates both of these
28 districts, the sharing of some operations supervisors and maintenance specialists,
29 a common billing system and equipment monitoring system (both of which are
30 probably company wide), these districts appear to have little in common
31 operationally speaking other than both being in the water business and being
32 part of the same company.

³³ D.04-07-035.

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³⁵ See Cal Am's workpapers to this Application, page 112. Cal Am estimates its total water service revenue requirement for Felton in 2006 at \$1,317,500 for 2005.

Table 6: Comparison of Monterey Rates: Stand Alone and Combined Scenarios

	2006	2007	2008	2009	2010	2011
Monterey quantity rate (Exhibit L)	\$4.47	\$5.84	\$8.05	\$11.75	\$11.88	\$12.02
Monterey combined quantity rate (Exhibit L)	\$4.46	\$5.83	\$8.03	\$11.73	\$11.87	\$12.01
Difference	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01
Monterey 5/8" Meter Rate (Stand-alone)	\$17.20	\$17.99	\$18.62	\$19.18	\$19.96	\$20.81
Monterey 5/8" Meter Rate - Combined with Felton	\$17.67	\$18.50	\$19.18	\$19.77	\$20.59	\$21.49
Difference	\$0.47	\$0.51	\$0.56	\$0.59	\$0.63	\$0.68
Monterey 2" Meter Rate (Stand-Alone)	\$137.60	\$143.92	\$148.96	\$153.44	\$159.68	\$166.48
Monterey 2" Meter Rate - Combined with Felton	\$141.35	\$147.97	\$153.40	\$158.18	\$164.76	\$171.93
Difference	\$3.75	\$4.05	\$4.44	\$4.74	\$5.08	\$5.45
Felton quantity rate (Exhibit M)	\$4.82	\$5.04	\$5.26	\$5.47	\$5.68	\$5.90
Felton combined quantity rae (Exhibit M)	\$3.96	\$4.27	\$4.50	\$4.76	\$4.65	\$4.86
Difference	-\$0.86	-\$0.77	-\$0.75	-\$0.70	-\$1.03	-\$1.04
Felton 5/8" Meter Rate (Stand-alone)	\$32.57	\$35.06	\$37.48	\$39.88	\$42.24	\$44.62
Felton 5/8" Meter Rate - Combined with Felton	\$17.67	\$18.50	\$19.18	\$19.77	\$20.59	\$21.49
Difference	-\$14.91	-\$16.56	-\$18.31	-\$20.11	-\$21.64	-\$23.13
Felton 2" Meter Rate (Stand-Alone)	\$260.60	\$280.46	\$299.85	\$319.06	\$337.91	\$356.93
Felton 2" Meter Rate - Combined with Felton	\$141.35	\$147.97	\$153.40	\$158.18	\$164.76	\$171.93
Difference	-\$119.25	-\$132.48	-\$146.45	-\$160.88	-\$173.15	-\$185.01
*Data from Exhibit L and M.						

Why should low use, water conscious Monterey consumers be subsidizing higher use customers in Felton? This makes no sense, especially when considering that Monterey ratepayers will be paying higher costs for water than Felton ratepayers within a few years.³⁶ This type of cross-subsidy is inequitable and should be rejected. Such a policy is clearly not in the public interest.

Cal Am's proposal would have Monterey ratepayers especially subsidize Felton district high use customers. As noted above in Table 7 below, for low quantity users, the consolidated rates are higher than or close to the approved Felton rates resulting in only miniscule savings on usage. For these users, the savings gained from the Cal Am's proposal come from the reduced service charge – a savings in the range of \$9 to \$10 per month for the average water consumer.

Under Cal Am's consolidated rate proposal, those customers who use greater than 20 units of water per month would see the most savings. Not only would they save more on their service charge (\$14.95/month off), they would also save 15.9% on the quantity portion of their bill compared to the authorized Felton rates. For a customer who uses 25 units of water, this amounts to a savings of \$29.80 a month, around three

³⁶ See Appendix F for a stand-alone bill comparison of the Felton and Monterey districts.

times as much as the average water use consumer would see.³⁷ This is just the opposite of the situation now, where customers are rewarded with discounts for conserving water, not consuming large quantities. Even in a district like Felton where water supply is ample, water conservation is still prudent. Cal Am's proposal results in excessive savings for those who use the most water.

Table 7: Felton Meter and Quantity Rate Comparison - 2005

Residential Customer with 5/8" meter	Current Felton Rates(1)	D.04-05-023 Approved Felton Rates for 2005 (2)	Consolidated Monterey Rates (2005 Monterey Rates)	Difference between Approved and Consolidated Rates	Change from Approved Rates
Meter charge	\$16.40	\$28.16	\$13.21	-\$14.95	-53.1%
<i>Conservation Discounted Service Charge</i>					
First 5 units	20%	20%	0%		
	\$13.12	\$22.53	\$13.21	-\$9.32	-41.4%
6 - 10 units	15%	15%	0%		
	\$13.94	\$23.94	\$13.21	-\$10.73	-44.8%
11 - 20 units	10%	10%	0%		
	\$14.76	\$25.34	\$13.21	-\$12.13	-47.9%
21 and up	0%	0%	0%		
	\$16.40	\$28.16	\$13.21	-\$14.95	-53.1%
Usage Charge, per CCF	\$2.925	\$3.731	\$3.1371	-\$0.59	-15.9%
<i>Conservation Discounted Usage Rate</i>					
First 5 units	20%	20%	0%		
	\$2.34	\$2.98	\$3.14	\$0.15	5.1%
6 - 10 units	15%	15%	0%		
	\$2.49	\$3.17	\$3.14	-\$0.03	-1.1%
11 - 20 units	10%	10%	0%		
	\$2.63	\$3.36	\$3.14	-\$0.22	-6.6%
21 and up	0%	0%	0%		
	\$2.925	\$3.731	\$3.1371	-\$0.59	-15.9%
(1) Data from rate information in Exhibit A of A.04-08-012.					
(2) Data from 2005 authorized rates for Felton and Monterey (See Appendicies B & C respectively)					

This analysis shows that the ratepayers of Monterey would be primarily subsidizing the high water use customers of Felton. And the burden would fall more heavily on the low use water customers of Monterey.

³⁷ See Table 9 for detailed example of a Felton bill for 25 Ccfs.

1 **F. Ratepayer Impacts**

2 Cal Am's proposal does not result in improved efficiencies, better service or cost
3 savings, and should be rejected. The proposal just allocates costs differently.
4 The so-called consolidated rate is nothing more than a generic version of
5 Monterey's current rate that no one uses. It is based on standard Commission
6 rate design but is not an actual tariff.

7 1. Cal Am's application fails to show consolidation rate impacts
8 are in the public interest.

9 • By not using the inverted rate tariffs and the per capita rates, **Applicants**
10 **did not show actual bill impacts of the consolidated rates on Monterey**
11 **ratepayers.** It is impossible to determine which ratepayers will bear the
12 brunt of subsidizing Felton without this information.

13 • **Cal Am has failed to provide adequate justification for including or**
14 **excluding various costs from the consolidated rates.** The Application
15 states that the combined revenue requirement will not include
16 consolidation of the source of supply, water production and water
17 treatment costs. Yet the application provides very little information as to
18 which specific expenses will be combined, and which will be excluded, or
19 the justification for including or excluding something. Nor has Cal Am
20 adequately shown what percentage of the total quantity rate will be
21 separate in each district.

22 It was not until ORA received the Excel spreadsheets supplied by Cal Am,
23 in response to ORA's second data request, that ORA determined how the
24 costs will be combined or kept separate. As ORA understands it, most of
25 the fixed costs will be combined as well as some of the variable costs. It is
26 only some of the *operating costs* -- the source of supply, water production
27 and water treatment -- that will be kept separate along with some or all
28 costs related to the Coastal Water Project and retrofitting any dams on the
29 Carmel River. In reviewing Cal Am's formulas in the Excel spreadsheets
30 provided to ORA, it appears that in Monterey, Cal Am will keep the
31 following expenses separate: source of supply expense, pumping expense,
32 purchased power, water treatment, chemicals and any water supply cost
33 savings or increases. Other operations expenses such as those for storage
34 facilities are combined. Customer meter reading is added into the
35 combined revenue requirement in Monterey but held separate in Felton.
36 Expenses for transmission, distribution, maintenance, administrative and
37 general, depreciation, return on investment, and the acquisition premium

will all be combined with the exception of expenses related to the specific Monterey exclusions. The rationale for combining certain expenses but excluding others, like storage facilities, is unclear. The proposed Monterey specific exclusions – the CWP and the retrofit of dams on the Carmel River – are sufficiently vague to allow the company some “wiggle room” in future years. (For discussion of ORA concerns regarding specific exclusions in the Monterey district see Section V, subsection D on pages 15 - 17.) Without more specificity, it will be difficult for the Commission to track whether costs have been appropriately assigned in the future. ORA believes the Application is entirely too vague on this important matter.

- **The Application does not show the effect of the separate variable rate component on total quantity rates.**³⁸ Rate and bill comparisons are made between Felton’s existing rates and the approved, but not yet implemented, Felton rates, and the proposed consolidated rates, but the Application does not highlight the asymmetry in the relative proportions of the consolidated rate (the “non-production rate”) and the separate district specific rate (the production rate) as part of the full quantity rates.

Table 8: Comparison of Separate and Combined Portions of Quantity Rates under Consolidated Districts

	2006	2007	2008	2009	2010
Monterey quantity rate (Exh L)	\$4.4642	\$5.8279	\$8.0346	\$11.7337	\$11.8707
Monterey non-production (combined portion)	\$3.1742	\$3.3779	\$3.5246	\$3.6437	\$3.7907
Monterey production (separate portion)	\$1.2900	\$2.4500	\$4.5100	\$8.0900	\$8.0800
Separate production rate % of full quantity rate	28.9%	42.0%	56.1%	68.9%	68.1%
Felton quantity rate (Exh M)	\$3.9592	\$4.2679	\$4.5046	\$4.7637	\$4.6487
Felton non-production (combined portion)	\$3.1742	\$3.3779	\$3.5246	\$3.6437	\$3.7907
Felton production (separate portion)	\$0.7850	\$0.8900	\$0.9800	\$1.1200	\$0.8580
Separate production rate % of full quantity rate	19.8%	20.9%	21.8%	23.5%	18.5%

As can be seen in Table 8, the effect of the separate production rate is not at all similar. For Felton, the separate production rate component is less than \$1 and approximately 20% to 24% of the bill for the next 5 years³⁹. In

³⁸ Cal Am also refers to the “variable rate component” as the “production rate”. It is the district specific rate component that is added on to the so-called “non-production” rate, which is the base consolidated or combined rate.

³⁹ ORA has used Cal Am’s numbers in this chart for consistency, but disagrees with them. In correcting the error in Exhibit D, Cal Am also made a not insignificant adjustment to the Felton combined production rates by adding constants to each year’s rate. One entry, in 2009, was as high as \$0.39, a 38% increase over the calculated rate. If correct numbers were used the Felton production rate, as a percentage of the total combined rate, would be in the 17% to 19% range. See Appendix E.

1 contrast, for Monterey, the separate production rate component starts at
2 \$1.29 and increases more than six fold, to \$8.09, in just three years time,
3 going from 29% of the total quantity rate to 68%. Rather than a little bit
4 extra that is district specific, the separate variable rate component in
5 Monterey will be twice as much as the consolidated portion of the rate, or
6 two thirds of the total quantity rate.

- 7 • **Cal Am fails to provide a quantification of the revenue shortfall that**
8 **would ensue if this application is approved, but prior to consolidated**
9 **rates being implemented in Monterey on January 1, 2006.** If this
10 application is approved, Felton ratepayers would pay the current 2005
11 Monterey rates⁴⁰, yet these are not real consolidated rates in that their
12 implementation in Felton still results in a revenue shortfall. Cal Am
13 proposes to track the revenue shortfall between the approved, but not yet
14 implemented, rates for Felton and 2005 Monterey rates that would go into
15 effect in Felton should the Commission approve this application in a
16 WRAM account, but provides no information on the amount of the
17 shortfall.
- 18 • **Cal Am's original application neglected to present information on the**
19 **impact of the accumulated revenue shortfall that has been tracked in the**
20 **balancing account since May as a result of the deferred 44.2% rate**
21 **increase or the ratepayer impact of amortizing the balance over five**
22 **years on Felton ratepayers.** In response to ORA and Felton FLOW data
23 requests, Cal Am provided monthly balances in this account through
24 November 2004 and estimated future monthly balances through June
25 2005. This data shows the current revenue shortfall to be around \$20,000
26 per month, or \$15 per customer per month. The estimated balance in the
27 account in June 2005 will be a little over \$258,000, or \$196 per customer.
28 (See Appendix D.) Cal Am requests authority to recover this balance from
29 Felton District customers via a separate five year surcharge, beginning on
30 the effective date of this decision. Cal Am estimates that the cost to
31 amortize the balance in this account over five years would be \$2.86 per
32 month if started on July 1, 2005⁴¹ or \$3.37 month if started January 1, 2006⁴²
33 for customers with a 5/8" meter. While the amounts in this balancing
34 account have to be recovered from customers even if Cal Am's rate
35 consolidation proposal is denied, to correctly evaluate the alternatives,
36 everything should be considered together. On January 29, 2005 Cal Am

⁴⁰ See Appendix C.

⁴¹ Cal Am Response to Felton FLOW Data Request 2, Question 2, Attachment.

⁴² Application, Exhibit R and Cal Am response to ORA Data Request #5, Question 24.

1 did provide ORA with a revised Exhibits J and K that incorporated
2 surcharge information but refused to provide similar updates to Exhibits
3 L & M.⁴³

- 4 • **Cal Am's "hard-coded" fix to the application's original unexplained**
5 **asymmetry⁴⁴ that had Monterey ratepayers paying significantly more**
6 **per year under consolidated rates than Felton ratepayers would save,**
7 **leaves unanswered questions about the ability of the combined rates**
8 **model to generate correct results.** Cal Am stated that there was an error
9 in the Monterey stand alone rate calculation and on January 4, 2005, at the
10 request of the ALJ, Cal Am submitted corrected versions of Exhibits D, E,
11 F and G. These exhibits were labeled as Exhibits J, K, L, and M
12 respectively. In response to ORA's inquiry on this matter, the company
13 said it made "hard-coded" adjustments in the Monterey non-production
14 quantity rate (used in Exhibits J & L).⁴⁵ In addition to the identified fix,
15 ORA also discovered other unexplained and not insubstantial changes to
16 the Felton combined production rate (used in Exhibits K and M). Finally,
17 in Exhibit K, various amounts of up to 1.5% were subtracted from the
18 stand-alone residential metered revenue compared to Exhibit E. To
19 ensure that the combined rate calculation works properly, Cal Am should
20 have identified the source of the error, explained the reason the combined
21 rate calculation produced such a large discrepancy and then fixed the
22 error at the source instead of "hard-coding" various unsubstantiated
23 entries.⁴⁶ (See Appendix E for more detail on this matter.)

24 2. Bill Impacts

25 The bill impacts for an average use customer in Felton are shown in Table
26 9. Notice how, for the average customer, most of the savings is coming from the
27 lower service charge.

⁴³ Response to ORA Data Request #5, Question 22 and 24.

⁴⁴ For example, in 2005, Exhibit D showed Monterey ratepayers would pay an extra \$412,910 in rates while Exhibit E showed Felton ratepayers would pay \$257,187 less, a difference of \$155,723 in unaccounted for revenues. A similar discrepancy occurred in subsequent years.

⁴⁵ Response to ORA Data Request #3, Question 1, January 5, 2005.

⁴⁶ It does not appear that Exhibits N, O, P, Q and R make these types of adjustments, nor did the original Exhibits D, E, F, and G. See Appendix E for further discussion of this matter.

1 **Table 9: Average Residential Monthly Bill Impacts – Felton, 2005**

Residential Customer with 5/8" meter, using 9 units (CCFs) water	Current Felton Rates	D.04-05-023 Approved Felton Rates	Consolidated Monterey Rates (not including WRAM)	Difference between Approved and Consolidated Rates	Change from Approved Rates
Monthly Rates					
Base Service Charge/Month	\$16.40	\$28.16	\$13.21	-\$14.95	-53.09%
Usage Charge, per HCF	\$2.925	\$3.731	\$3.1371	-\$0.59	-15.92%
Conservation Discount					
First 5 units	20%	20%	0%		
6 - 10 units	15%	15%	0%		
11 - 20 units	10%	10%	0%		
Monthly Charges					
Service Charge	\$16.40	\$28.16	\$13.21		
less 15% discount	-\$2.46	-\$4.22	\$0.00		
Net service charge	\$13.94	\$23.94	\$13.21	-\$10.73	-44.81%
Usage Charge (9 units)	\$26.33	\$33.58	\$28.23		
(less 15% discount)	-\$3.95	-\$5.04	\$0.00		
Net usage charge	\$22.38	\$28.54	\$28.23	-\$0.31	-1.08%
Monthly water bill	\$36.32	\$52.48	\$41.44	-\$11.03	-21.03%
SDWBA Surcharge	\$11.50	\$11.50	\$11.50		
Total bill	\$47.82	\$63.98	\$52.94	-\$11.03	-17.25%

2 * Data from rate information in Cal Am Exhibit A, and Appendicies B & C of this testimony.

3

4 Table 10 (next page) shows the increased savings from a customer that in not
5 eligible to receive a conservation discount.

Table 10: Residential Monthly Bill Impacts (2005) for Felton Customers who do not receive a conservation discount

Residential Customer with 5/8" meter, using 25 units (CCFs) water	Current Felton Rates	D.04-05-023 Approved Felton Rates for 2005	Consolidated Monterey Rates (2005 rates)	Difference between Approved and Consolidated Rates	Change from Approved Rates
Monthly Rates					
Base Service Charge/Mo	\$16.40	\$28.16	\$13.21	-\$14.95	-53.1%
Usage Charge, per HCF	\$2.925	\$3.731	\$3.1371	-\$0.59	-15.9%
Conservation Discount					
First 5 units	20%	20%	0%		
6 - 10 units	15%	15%	0%		
11 - 20 units	10%	10%	0%		
Monthly Charges					
Service Charge	\$16.40	\$28.16	\$13.21		
less 0% discount	\$0.00	\$0.00	\$0.00		
Net service charge	\$16.40	\$28.16	\$13.21	-\$14.95	-53.1%
Usage Charge (25 units)	\$73.13	\$93.28	\$78.43		
(less 0% discount)	\$0.00	\$0.00	\$0.00		
Net usage charge	\$73.13	\$93.28	\$78.43	-\$14.85	-15.9%
Monthly water bill	\$89.53	\$121.44	\$91.64	-\$29.80	-24.5%
SDWBA Surcharge	\$11.50	\$11.50	\$11.50		
Total bill	\$101.03	\$132.94	\$103.14	-\$29.80	-22.4%
* Data from rate information in Cal Am Exhibit A, and Appendices B & C of this testimony.					

G. Allocation of Citizen's Acquisition Premium and Synergies

In addition to the DRA guidelines and other criteria considered above, ORA believes it is important to consider the ratemaking impacts of Cal Am's acquisition of Citizens' water utility assets. [D. 01-09-057](#) authorized Cal Am to acquire Citizens water utility operating districts in California -- Sacramento, Larkfield, Felton and Montara. Authorization for this merger was predicated on there being acquisition-related synergies, benefits that would be shared with ratepayers in each acquired district.⁴⁷ ORA recommends that the Commission

⁴⁷ Cal Am noted the consolidation of Cal Am citizens California would generate both quantifiable and non quantifiable benefits for Citizens' ratepayers such as greater economies of scale, lower rates than there would be absent consolidation, enhanced ability to respond to emergencies in natural disasters; access to in-house laboratory and research capabilities in California and nationally; annual customer satisfaction surveys and incentive compensation tied to customer service; specialized in-house design and engineering

1 consider the equity issues regarding allocation of the acquisition premium costs
2 and acquisition synergies to ratepayers in both districts, and its ability to monitor
3 these.

4 **H. Incongruity with Southern California Water rate consolidation**
5 **decision.**

6 Cal Am claims its proposal is in keeping with commission precedent, and cites
7 Southern California Water Company's (SCWCs) application to introduce
8 consolidated rates for eight of its water districts in Southern California.
9 (Application Of Southern California Water Company(U 133 W) For Authority
10 Pursuant Public Utilities Code Section 454 To Restructure The Water Rates Of Its
11 Barstow, Calipatria-Niland, Claremont, Desert, Orange County, San Dimas, San
12 Gabriel And Wrightwood Districts Into Region-Wide Tariffs, [D.00-06-075](#).) In
13 approving that application, the Commission reiterated that it was not
14 establishing a generic policy and that in the future it would continue to consider
15 proposals for cost averaging on a case-by-case basis, with the burden on
16 proponents of such plans to show substantial benefits in the public interest.

17 Cal Am's application to consolidate the Felton and Monterey districts is
18 different in many respects from what the Commission adopted for SCWC in
19 D.00-06-075. These differences undermine many of the potential advantages
20 consolidated rates might offer. These differences are as follows:

- 21 • *The consolidated regional rates approved in the SCWC case did not*
22 *exclude the source of supply, water production and water treatment costs*
23 *from the combined revenue requirement or any major capital projects.* As
24 noted above, one of the main advantages of single tariff pricing is that
25 since every water system eventually requires an infusion of the capital for
26 infrastructure renovations and improvements, consolidating rates
27 smoothes the effect of discrete cost spikes across systems and over time.
28 The Commission noted that a region-wide tariff would benefit existing
29 and future customers by stabilizing rates, making rates more affordable in
30 the smaller rate districts, and facilitating the investment in water supply
31 infrastructure and water treatment facilities.

32 Cal Am's rate consolidation proposal for Felton and Monterey districts
33 does not offer the same advantages. Two very large capital projects in the

capabilities; enhanced employee career growth and training opportunities; participation in Environmental Protection Agency partnership program designed to enhance water quality; greater ability to acquire and upgrade small, troubled water companies in California; and Cal Am's single industry focus in contrast to Citizens will fight industry diversification. (D.01-09-057, pg. 5 & 6)

1 Monterey District – the Coastal Water Project and the retrofitting of the
2 San Clemente Dam – appear to be excluded from the combined revenue
3 requirement as are the operating costs for water supply, production and
4 treatment. This undercuts the rationale for moving to single-tariff pricing.
5 Yet, because the capital needs of Monterey and Felton are so dissimilar, if
6 these costs were consolidated, it could easily result in Felton ratepayers
7 paying higher than stand-alone rates in the future to subsidize the
8 desalination plant in Monterey and other Monterey specific issues. This
9 would create an outcome contrary to the goal of the current application.
10 The intent is to lower risk and smooth rate spikes. While it may lower
11 rates for Felton in the short term, this comes with added long term risk.

- 12 • *Under the SCWC proposal, it was argued that in time, every district*
13 *would benefit from the consolidated rate design* – even districts that faced
14 immediate rate increases such as Barstow and Orange County – stating
15 that, “they are next in line for major infrastructure improvements and will
16 not have to bear these costs alone.”⁴⁸ SCWC’s testimony projected capital
17 expenditures of \$20.7 million in Orange County (most of it for water
18 treatment and well replacement) and \$14.5 million in Barstow (most of it
19 for arsenic and radon removal). The smaller high-cost districts would
20 have to pay a share of these costs as well. Because many costs in the
21 present proposal are excluded from the combined revenue requirement,
22 the subsidy is intended to go one way – Monterey ratepayers subsidizing
23 Felton ratepayers. This is not fair to Monterey ratepayers. And if it were
24 to go the other way, it would be disproportionately burdensome to Felton
25 ratepayers.
- 26 • *SCWC was directed to continue to calculate its revenue requirements*
27 *separately for each of the eight districts subject to the same regulatory*
28 *and community review that now occurs in general rate cases that involve*
29 *multiple stand-alone districts.*
- 30 • In this application, Cal Am proposes that consolidated rates be based on a
31 *combined* revenue requirement for the two districts. Combining the
32 revenue requirement will make it harder to evaluate whether cost-
33 averaging has actually produced the benefits promised in this application.
- 34 • *The rate shock and affordability problems in SCWC were more severe*
35 *than in the Felton district.* “Before it agreed to defer a new treatment
36 plant in Calipatria-Niland, the company in its GRC application was

⁴⁸ D.00-06-075, pg. 11.

1 forecasting average rates for the 1200 customers in that district of \$134.49
2 per month in the year 2000, \$233.30 in 2001, and \$322 per month in the
3 year 2002.” (D.00-06-075, pg. 24) Even without the addition of this new
4 treatment plant, stand-alone rates for an average annual water bill in
5 Calipatria-Niland were estimated to be \$1,943 in 2002, for example. In
6 contrast, the regional rate was shown as \$529, a savings of \$1040 annually.

- 7 • ***Some of SCWC’s smaller districts were impoverished.*** Commissioner
8 Bilas, in his dissent⁴⁹, says that it appears that SCWC’s application and its
9 presentation are driven in part by the impoverished people in the districts
10 of Calipatria-Niland and Desert. He acknowledged that many, if not
11 most, of the customers in those districts need relief from high water rates
12 so they can continue to consume water in an amount adequate to ensure
13 their well-being. But he added that this “*does not mean that all customers in*
14 *those districts require relief from existing or projected rates or that low-income*
15 *ratepayers of subsidizing districts should be disregarded because their current*
16 *rates are comparatively low.*” [Emphasis added.]

17 Cal Am has made no showing that the people of Felton are impoverished,
18 or that the authorized, but not yet implemented, Felton rates are not
19 affordable to the majority of Felton ratepayers

- 20 • ***In the SCWC application, many ratepayers supported the consolidation***
21 ***proposal.*** The Commission received hundreds of letters – most of them
22 *supporting* the regional rate consolidation plan from ratepayers in the
23 smaller, high-rate districts. (D.00-06-075)

24 In this case, the Commission has received dozens of letters from
25 ratepayers – all of them *opposing* the proposed consolidation. The vast
26 majority of the letters are from the Felton, the smaller, presently higher-
27 rate district. Issues raised in the Felton letters include the community’s
28 desire for local control, their wish to retain the option to purchase their
29 water system and have San Lorenzo Valley Water District run it, examples
30 of deteriorating customer service and service quality since Cal Am took
31 over, Cal Am’s lack of credibility and forthrightness, confusion over what
32 rates are in effect, noting that Monterey has numerous problems which
33 Felton doesn’t want to pay for, and the company’s offensive advertising
34 against the community condemnation efforts.

35 Issues raised in the Monterey letters included the inappropriateness of
36 requiring Monterey to subsidize bad investment decisions by Cal Am in

⁴⁹ See Appendix G for full text of Commissioner Bilas dissent to D.00-06-075 dated June 22, 2000.

1 purchasing the unprofitable Felton system), the already extremely high
2 water bills in Monterey and the expectation of steep rate increases over
3 the next decade, and the fact Felton and Monterey have nothing in
4 common.

- 5 • *D.00-06-075 indicates the Commission would consider alternate means of*
6 *relief for ratepayers, if any were available.*

7 In D.00-06-075, the Commission stated on page 26:

8 Branch argues that approval of single tariff pricing in this case represents
9 a significant change in policy from traditional cost of service ratemaking.
10 Primarily for that reason, the Commission rejected a similar proposal for
11 regional rates in 1983. (Re Southern California water Company, supra.)
12 However, in that decision, we were careful to note that a consolidation of
13 the type proposed by the utility "may ultimately prove necessary" *if*
14 *alternate means of relief for ratepayers could not be found.* (Id., 12 CPUC2d at
15 80.) [Emphasis added.]

16 By the same token, Branch's suggestion that SCWC sell its high rate
17 districts to others would be more compelling if there were the slightest
18 evidence that some willing buyer existed. There is no evidence that
19 suggests the cost of operating the systems (and, hence, the rates paid by
20 customers) would be significantly less under another operator.

21 In the present application, there are alternatives to mitigate the potential
22 rate shock in Felton. ORA has presented a proposal for phasing-in the
23 previously authorized 44.2% rate increase in Felton along with a low
24 income water assistance program. Likewise, there is evidence that the
25 citizens of Felton are taking steps towards buying their own water system-
26 - yet another possible alternative to the proposed consolidation.

27 **I. Public Acquisition of Felton Water System**

28 ORA believes the Commission should allow time for the democratic process to
29 work, whereby a vote of the Felton ratepayers will determine whether the Felton
30 district wishes to finance the public acquisition of their water system. Moving
31 forward with this rate consolidation as proposed by Cal Am could hinder public
32 acquisition and municipalization of the Felton water system – a matter which
33 will be addressed by the voters shortly. Cal Am's proposal would do this by
34 combining the revenue requirements for the two districts, thus obfuscating the
35 accounting of costs and revenues for Felton.

36 ORA believes that before saddling the ratepayers of Monterey with extra
37 payments from in the range of a quarter of a million dollars or more next year to

1 double or triple that in 2019⁵⁰ which are totally unrelated to their cost of service,
2 the Commission should allow enough time for the citizens of Felton to fully
3 explore this alternative. At a minimum, the Commission should not do anything
4 in this proceeding that would foreclose that option from being fully exercised if it
5 is the will of the local residents of that district.

6 ORA recommends this application be denied, but if the Commission decides to
7 grant it, ORA recommends that it require Cal Am to continue to calculate the
8 revenue requirements of both the Monterey and Felton districts separately, and
9 be subject to the same regulatory and community review that now occurs in
10 GRCs. This is consistent with what the Commission authorized for SCWC in
11 D.00-06-075.⁵¹ In addition, as in the SCWC case, the utility should file an analysis
12 along with the annual reports for these districts, identifying the benefits and
13 costs of consolidated rates. This will enable the Water Division to analyze
14 whether this proposal has produced the results promised and recommend
15 changes if necessary.

16 **J. Regulatory workload impacts**

17 *Will the proposed district consolidation reduce the regulatory caseload for both the Public*
18 *Utilities Commission Staff and the individual water utilities without adverse effect on the*
19 *utility customers?*

20 Contrary to reducing regulatory burdens on the Commission, this proposal
21 would add to them by requiring careful scrutiny of costs that are separate and
22 those that are combined. While a portion of the rates would be consolidated, Cal
23 Am also proposes district specific rate components, requiring more work when
24 reviewing future rate cases for the Commission and intervenors alike.

25 **K. ORA alternative proposal to mitigate the rate shock in Felton.**

26 ORA recommends the Commission consider ORA's alternative proposal for
27 attenuating the rate shock that would be caused by the 44.2% rate increase
28 authorized in the last Felton GRC. (D.04-05-023)

⁵⁰ Exhibit J estimates extra Monterey revenues ranging from \$283,428 in 2006 to \$608,480 in 2019.
Exhibit N estimates additional Monterey revenues ranging from \$565,483 in 2006 to \$730,700 in 2019.

⁵¹ D.00-06-075, Ordering Paragraph 3, pg. 35.

1. Phase in the previously adopted 44.2% rate increase

ORA proposes a phased-in approach to implementing the already adopted rates. Under this approach, the approved quantity rates for Felton would be implemented immediately, and the new service charge would then be phased-in over a period of 18 months. See Table 5 for an example of how this would work if the approved, but not yet implemented rates, went into effect on July 1, 2005.

Table 11: Example of ORA Alternative - Phase-In of Felton Service Charge

	Service Charge	Usage /Quantity Charge	Revenue Shortfall per Customer
Present	\$16.40	\$2.925	(\$11.76) and (\$0.806/unit)
July 1,2005	\$ 19.34	\$3.731	(\$8.82)
Jan 1, 2006	\$ 22.28	\$3.731	(\$5.88)
July 1, 2006	\$ 25.22	\$3.731	(\$2.94)
Jan 1, 2007	\$ 28.16	\$3.731	\$0.0
July 1, 2007 – July 1, 2012 And	\$28.16 ~ \$2.00 surcharge	\$3.731	

This proposal would initially result in almost identical bills for the average residential customers as under Cal Am's rate consolidation proposal. (See Table 12.) It would then gradually phase-in the remaining authorized rate increase in a way that avoids rate shock. (After six months, customers would receive another \$2.94 increase to the service charge. This would be repeated twice again.) The revenue shortfall would be recorded in the revenue shortfall balancing account over the next 18 months and later recovered via a separate surcharge over a multi-year period after rates reach authorized levels. ORA estimates the additional surcharge as a result of this phase-in of rates would be under \$2 per month per residential customers with 5/8" meter if amortized over five years.⁵²

⁵² Revenue shortfall per customer = 6 months @\$8.82 + 6 months@ \$5.88 + 6 months @ \$2.94 = \$105.84/customer. This amount amortized over 5 years with interest at the 90-day commercial paper rate results in an additional payment of under \$2/customer.

Table 12: Average Bill Comparison - ORA Phased-In Rates Alternative (2005)

Residential Customer with 5/8" meter, using 9 units (CCFs) water	Current Felton Rates	1-Jul-05	D.04-05- 023 Approved Felton Rates for 2005	Initial Phased In Rates 1- Jul-05	Consolida ted Monterey Rates (2005 Monterey rates)	Difference between Phased-In and Consolida ted Rates	Change from Consolida ted Rates
Monthly Rates							
Base Service Charge/Month	\$16.40	\$16.40	\$28.16	\$16.40	\$13.21		
Usage Charge, per HCF	\$2.925	\$3.617	\$3.731	\$3.731	\$3.1371		
Conservation Discount							
First 5 units	20%		20%	20%	0%		
6 - 10 units	15%		15%	15%	0%		
11 - 20 units	10%		10%	10%	0%		
Monthly Charges							
Service Charge	\$16.40		\$28.16	\$16.40	\$13.21		
Usage Charge (9 units)	\$26.33		\$33.58	\$33.58	\$28.23		
Monthly water bill	\$42.73		\$61.74	\$49.98	\$41.44		
Less 15% bill discount	-\$6.41		-\$9.26	-\$7.50	\$0.0		
Net monthly water charges	\$36.32		\$52.48	\$42.48	\$41.44	\$1.04	2.4%
SDWBA Surcharge	\$11.50		\$11.50	\$11.50	\$11.50		
Total bill	\$47.82		\$63.98	\$53.98	\$52.94	\$1.04	1.9%

Since the average customer in Felton uses approximately 9 units (CCFs) of water per month, and Felton has the conservation discount place, the above rates would be discounted by 15%. In contrast, *Cal Am's consolidated rate proposal in this application unwisely eliminates the Felton conservation discount* taking away this important water conservation and cost management tool.

Cal Am will be filing another GRC for Felton in February 2005. The timing of any further rate increases approved as a result of that GRC would need to be considered and coordinated with an existing phase-in schedule. If future rate increases are in the 4% to 6% range, as was suggested by Cal Am's work papers supporting Exhibits J, K, L and M,⁵³ this should be workable. That being said, ORA is reluctant to have Felton ratepayers accruing too much in deferred charges and prefers, when at all possible, to have rate increases go into effect at the time they are authorized.

2. Establish a low-income program to provide targeted rate relief

ORA recommends the Commission require Cal Am to institute a low-income water assistance program in Felton such as the one that is currently in place in

⁵³ Workpapers, page 34. See annual estimated operating revenues.

1 Monterey where eligible low-income customers receive 50% off the monthly
2 service charge.⁵⁴ This type of program creates a more targeted solution to the
3 rate shock dilemma by providing increased assistance to those on fixed or low-
4 incomes who may experience economic hardship as a result of the new rate
5 levels.

6 Other utilities, such as Pennsylvania American Water have additional programs
7 such as the utility hardship fund which provides cash assistance in the form of
8 grants for low-income customers to assist with their water bills. This program is
9 funded through shareholder match (up to \$60,000) of customer and employee
10 donations. (There is a dollar check off option on the bill for customers to donate.)
11 This company also has a conservation complement to help low income customers
12 reduce consumption through the installation of conservation devices and
13 assistance with repairing minor plumbing problems to stop leaks.⁵⁵

14 Cal Am has not provided any data on the number of customers who would
15 qualify under the PAR income guidelines in Felton. However, ORA estimates
16 eligible customers would be roughly 20%, and the percentage of those who
17 would enroll in the program at around 33%⁵⁶ or approximately 75 customers.
18 Giving each of these customers a 50% discount off the monthly service charge
19 (\$14.08/month subsidy) would cost around \$12,700/year total.⁵⁷

20 ORA recommends the Commission require Cal Am to submit a low income rate
21 assistance plan for Felton to the Commission within 90 days for Commission
22 authorization. ORA recommends the plan be modeled after their Monterey
23 district program and that it take effect January 1, 2006.

24 VI. Conclusion

25 ORA strongly recommends the Commission **not** authorize Cal Am to implement
26 new Felton and Monterey district consolidated rates based on the combined
27 revenue requirements of those districts. The Commission should instead
28 authorize Cal Am to implement the Felton District rates authorized and deferred
29 by D.04-05-023 in a phased-in manner as described above. Further, the
30 Commission should also require Cal Am to submit an application to implement a

⁵⁴ See Appendix G for copy of Cal Am's flyer on their "Program for Alternate Rates (PAR)" Application with program description and eligibility guidelines.

⁵⁵ From "LIHEAP" for Water Customers, Chairman Wendell F. Holland, Pennsylvania Public Utility Commission, 107th NAWC Annual Conference, La Quinta, CA, October 13, 2004.

⁵⁶ Ballpark estimate based on California Alternate Rates for Energy (CARE) data from PG&E Ninth Annual Report and Outreach Program Cost Estimates. PG&E showed 18% of their customer base as eligible for the CARE program, with approximately one third of those eligible enrolled in the program.

1 low income water assistance program in Felton similar to its PAR program in
2 Monterey within ninety days of the effective date of a decision in this case.

3 The Commission should not authorize Cal Am to collect from Felton District
4 ratepayers over a five-year period the amount accrued in the balancing account
5 established in D.04-05-023, Ordering Paragraph#6 to track revenue shortfalls
6 resulting from the deferral of the 44.2% rate increase ordered. Instead, this
7 balancing account should continue to accrue the remaining revenue shortfall
8 while the previously authorized rates are phased-in over a period of eighteen
9 months. At that time, the total revenue shortfall should be collected from
10 ratepayers via a surcharge. ORA recommends the details of that recovery be
11 included in the upcoming GRC so that all future rate increases will be
12 coordinated.

13 If the Commission does decide to approve this application, ORA recommends
14 that Cal Am be required to continue to calculate the revenue requirements of
15 both the Monterey and Felton districts separately, and be subject to the same
16 regulatory and community review that now occurs in GRCs, consistent with
17 what the Commission authorized for SCWC in D.00-06-075. In addition, as in the
18 SCWC case, the utility should file an analysis along with the annual reports for
19 these districts, identifying the benefits and costs of consolidated rates. This will
20 enable the Water Division to analyze whether this proposal has produced the
21 results promised and recommend changes if necessary.

22 ORA urges the Commission to reject this Application for the reasons stated
23 herein. ORA believes it is beyond the scope of the present application to consider
24 major shifts in Commission ratemaking policy. Should the Commission wish to
25 consider moving away from cost-based water rates as a means to address the
26 issues of affordability of water service and the need for rate relief for customers
27 of small water systems, ORA recommends it consider this in a rulemaking. This
28 will allow all the policy implications to be fully vetted and all affected parties
29 properly notified.

30 There are many small water utilities that are truly impoverished and struggling
31 economically to replace aging infrastructure and build new water treatment
32 facilities to meet drinking water standards. All ratepayers need insurance
33 against rate shock and those with a large water burden, such as low-income
34 ratepayers and those in impoverished areas with large infrastructure costs, will
35 need further assistance. Considering these issues in isolation is akin to making a
36 purchasing decision in isolation, without looking at the overall budget. It is out
37 of context.

1 Subsidies should go to systems that truly need rate relief through a statewide
2 program. Ratepayers or the subsidizing public should be assured that if they are
3 not paying cost-based rates, the extra they pay today will benefit them tomorrow
4 in avoided rate spikes, or that it provides a subsidy to those water systems and
5 customers that are truly in need of rate relief. This proposal offers neither and
6 should be rejected.

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VII. Appendices

- Appendix A** – A.04-08-012 Data Summary
- Appendix B** – Felton 2005 Rates (Approved, but not yet implemented.)
- Appendix C** – Monterey 2005 Tariff Rates (PUC Standard Rate Design)
- Appendix D** – Revenue Shortfall Balancing Account: Balances
- Appendix E** – Cause of Revenue Asymmetry in Exhibits D and E still
unexplained
- Appendix F** – Stand-alone Bill Comparison – 2005 to 2010
- Appendix G** - Dissent of Commissioner Richard A. Bilas to D.00-06-075
- Appendix H** - Background on Affordability of Water Service
- Appendix I** – Ratemaking differences between district and consolidated rates
- Appendix J** – Cal Am’s Water Low Income Rate Assistance
- Appendix K** - Partial List of Cal Am Special Rate Requests in the Monterey GRC
- Appendix L** – Diana S. Brooks, Qualifications

1 Appendix A: A.04-08-012 Data Summary for Exhibits J, K, L & M

Source Cal Am spreadsheet listed in () from either
 "Combined Monterey and Felton - Updated for En
 "AdoptedExh Felton", or "Adopted A - L".

	ADOPTED		2005	2006	2007	2008	2009	2010
	TY 2003 2004	TY 2004 2005 auth						
Quantities: KCcfs	Exh B & C							
Felton quantities (D.2)		178.8	178.977	179.179	179.381	179.584	179.786	179.988
Monterey quantities (D.2)		6116.7	6124.853	6131.039	6135.269	6139.499	6143.729	6147.959
Combined (9.2) (sum)		6295.5	6303.9	6310.2	6314.7	6319.1	6323.5	6328.0
Total Water Rev Req								
Monterey (9.2)		\$29,067.5	\$36,505.1	\$39,781.1	\$48,843.1	\$63,053.1	\$86,523.1	\$87,973.1
Felton (9.2)		\$1,063.0	\$1,256.6	\$1,317.5	\$1,394.8	\$1,470.5	\$1,545.8	\$1,620.8
Combined (9-2)		\$30,130.5	\$37,761.7	\$41,098.6	\$50,237.9	\$64,523.6	\$88,068.9	\$89,593.9
Average Metered Customers								
Felton (C-2)		1,311	1,313	1,315	1,317	1,319	1,321	1,323
Monterey (C-2)		38,266	38,294	38,314	38,326	38,338	38,350	38,362
Quantity Rates (\$/Ccfs)								
Stand-alone								
Monterey quantity rate (used in Exh J & L)	\$3.05	\$3.14	\$4.0050	\$4.4701	\$5.8372	\$8.0465	\$11.7478	\$11.8766
* Monterey non-production (Stand Alone Rates)			\$3.0950	\$3.1801	\$3.3872	\$3.5365	\$3.6578	\$3.7966
Monterey production (Stand Alone Rates)			\$0.9100	\$1.2900	\$2.4500	\$4.5100	\$8.0900	\$8.0800
Felton quantity rate (used in Exh M)	\$3.62	\$3.73	\$4.6485	\$4.8235	\$5.0424	\$5.2561	\$5.4682	\$5.6815
Felton non-production (Stand-alone Rates)			\$3.9085	\$4.0735	\$4.2724	\$4.4661	\$4.6582	\$4.8415
Felton production (Stand Alone Rates)			\$0.7400	\$0.7500	\$0.7700	\$0.7900	\$0.8100	\$0.8400
* Felton quantity rate (used in Exh K)			\$4.7035	\$4.9035	\$5.1424	\$5.3761	\$5.5982	\$5.8315
Combined								
Monterey Combined Quantity Rate (used in Exh J & L)			\$4.0180	\$4.4642	\$5.8279	\$8.0346	\$11.7337	\$11.8707
Monterey non-production (Combined Rates)			\$3.1080	\$3.1742	\$3.3779	\$3.5246	\$3.6437	\$3.7907
Monterey production (Combined Rates)			\$0.9100	\$1.2900	\$2.4500	\$4.5100	\$8.0900	\$8.0800
Felton Combined (used in Exh K & M)			\$3.8880	\$3.9592	\$4.2679	\$4.5046	\$4.7637	\$4.6487
Felton non-production (Combined Rates)			\$3.1080	\$3.1742	\$3.3779	\$3.5246	\$3.6437	\$3.7907
* Felton production (Combined Rates)			\$0.7800	\$0.7850	\$0.8900	\$0.9800	\$1.1200	\$0.8580
Service Charge / Meter Rates (\$/meter)								
5/8" meter								
Monterey (Stand-Alone_	\$12.63	\$13.21	\$16.70	\$17.20	\$17.99	\$18.62	\$19.18	\$19.96
Felton (Stand-Alone)	\$24.86	\$28.16	\$30.67	\$32.57	\$35.06	\$37.48	\$39.88	\$42.24
Monterey-Felton Combined (Combined Rates)			\$16.95	\$17.67	\$18.50	\$19.18	\$19.77	\$20.59
2" meter								
Monterey (Stand-Alone)	\$101.04	\$105.68	\$133.60	\$137.60	\$143.92	\$148.96	\$153.44	\$159.68
Felton (Stand-Alone)	\$198.92	\$225.20	\$245.36	\$260.60	\$280.46	\$299.85	\$319.06	\$337.91
Monterey-Felton Combined (Combined Rates)			\$135.60	\$141.35	\$147.97	\$153.40	\$158.18	\$164.76

* These rates have constants added into calculated values.

1 **Appendix A: A.04-08-012 Data Summary for Exhibits J, K, L & M cont.**

Source Cal Am spreadsheet listed in () from either
 "Combined Monterey and Felton - Updated for Error",
 "AdoptedExh Felton", or "Adopted A - L".

	2011	2012	2013	2014	2015	2016	2017
Quantities: KCcfs							
Felton quantities (D.2)	180.190	180.392	180.595	180.797	180.999	181.201	181.403
Monterey quantities (D.2)	6152.189	6156.419	6160.649	6164.879	6169.109	6173.339	6177.569
Combined (9.2) (sum)	6332.4	6336.8	6341.2	6345.7	6350.1	6354.5	6359.0
Total Water Rev Req							
Monterey (9.2)	\$89,493.1	\$91,013.1	\$92,543.1	\$94,113.1	\$95,713.1	\$97,363.1	\$99,023.1
Felton (9.2)	\$1,697.5	\$1,775.2	\$1,854.0	\$1,934.0	\$2,015.2	\$2,097.6	\$2,181.1
Combined (9-2)	\$91,190.6	\$92,788.3	\$94,397.1	\$96,047.1	\$97,728.3	\$99,460.7	\$101,204.2
Average Metered Customers							
Felton (C-2)	1,325	1,327	1,329	1,331	1,333	1,335	1,337
Monterey (C-2)	38,374	38,386	38,398	38,410	38,422	38,434	38,446
Quantity Rates (\$/Ccfs)							
Stand-alone							
Monterey quantity rate (used in Exh J & L)	\$12.0173	\$12.1556	\$12.2930	\$12.4353	\$12.5800	\$12.7305	\$12.8798
* Monterey non-production (Stand Alone Rates)	\$3.9873	\$4.1756	\$4.3630	\$4.5553	\$4.7400	\$4.9305	\$5.1298
Monterey production (Stand Alone Rates)	\$8.0300	\$7.9800	\$7.9300	\$7.8800	\$7.8400	\$7.8000	\$7.7500
Felton quantity rate (used in Exh M)	\$5.9010	\$6.1229	\$6.3485	\$6.5783	\$6.8107	\$7.0484	\$7.2880
Felton non-production (Stand-alone Rates)	\$5.0410	\$5.2429	\$5.4485	\$5.6583	\$5.8707	\$6.0784	\$6.2980
Felton production (Stand Alone Rates)	\$0.8600	\$0.8800	\$0.9000	\$0.9200	\$0.9400	\$0.9700	\$0.9900
* Felton quantity rate (used in Exh K)	\$6.0710	\$6.3129	\$6.5585	\$6.8183	\$7.0707	\$7.3384	\$7.5980
Combined							
Monterey Combined Quantity Rate (used in Exh J & L)	\$12.0097	\$12.1473	\$12.2845	\$12.4257	\$12.5698	\$12.7187	\$12.8670
Monterey non-production (Combined Rates)	\$3.9797	\$4.1673	\$4.3545	\$4.5457	\$4.7298	\$4.9187	\$5.1170
Monterey production (Combined Rates)	\$8.0300	\$7.9800	\$7.9300	\$7.8800	\$7.8400	\$7.8000	\$7.7500
Felton Combined (used in Exh K & M)	\$4.8587	\$5.0653	\$5.2725	\$5.4827	\$5.6798	\$5.9007	\$6.1190
Felton non-production (Combined Rates)	\$3.9797	\$4.1673	\$4.3545	\$4.5457	\$4.7298	\$4.9187	\$5.1170
* Felton production (Combined Rates)	\$0.8790	\$0.8980	\$0.9180	\$0.9370	\$0.9500	\$0.9820	\$1.0020
Service Charge / Meter Rates (\$/meter)							
5/8" meter							
Monterey (Stand-Alone_	\$20.81	\$21.68	\$22.57	\$23.47	\$24.39	\$25.33	\$26.29
Felton (Stand-Alone)	\$44.62	\$47.03	\$49.44	\$51.89	\$54.35	\$56.83	\$59.34
Monterey-Felton Combined (Combined Rates)	\$21.49	\$22.40	\$23.33	\$24.27	\$25.23	\$26.22	\$27.22
2" meter							
Monterey (Stand-Alone)	\$166.48	\$173.44	\$180.56	\$187.76	\$195.12	\$202.64	\$210.32
Felton (Stand-Alone)	\$356.93	\$376.24	\$395.54	\$415.12	\$434.79	\$454.65	\$474.69
Monterey-Felton Combined (Combined Rates)	\$171.93	\$179.20	\$186.60	\$194.15	\$201.85	\$209.75	\$217.77

* These rates have constants added into calculated values.

1 **Appendix A: A.04-08-012 Data Summary for Exhibits J, K, L & M cont.**

Source Cal Am spreadsheet listed in () from either
 "Combined Monterey and Felton - Updated for Error",
 "AdoptedExh Felton", or "Adopted A - L".

	2018	2019
Quantities: KCcfs		
Felton quantities (D.2)	181.606	181.808
Monterey quantities (D.2)	6181.799	6186.029
Combined (9.2) (sum)	6363.4	6367.8
Total Water Rev Req		
Monterey (9.2)	\$100,743.1	\$102,483.1
Felton (9.2)	\$2,266.0	\$2,353.4
Combined (9-2)	\$103,009.1	\$104,836.5
Average Metered Customers		
Felton (C-2)	1,339	1,341
Monterey (C-2)	38,458	38,470
Quantity Rates (\$/Ccfs)		
Stand-alone		
Monterey quantity rate (used in Exh J & L)	\$13.0354	\$13.1927
* Monterey non-production (Stand Alone Rate)	\$5.3254	\$5.5127
Monterey production (Stand Alone Rates)	\$7.7100	\$7.6800
Felton quantity rate (used in Exh M)	\$7.5318	\$7.7833
Felton non-production (Stand-alone Rates)	\$6.5218	\$6.7433
Felton production (Stand Alone Rates)	\$1.0100	\$1.0400
* Felton quantity rate (used in Exh K)	\$7.8718	\$8.1533
Combined		
Monterey Combined Quantity Rate (used in Exh J & L)	\$13.0224	\$13.1789
Monterey non-production (Combined Rates)	\$5.3124	\$5.4989
Monterey production (Combined Rates)	\$7.7100	\$7.6800
Felton Combined (used in Exh K & M)	\$6.3374	\$6.5589
Felton non-production (Combined Rates)	\$5.3124	\$5.4989
* Felton production (Combined Rates)	\$1.0250	\$1.0600
Service Charge / Meter Rates (\$/meter)		
5/8" meter		
Monterey (Stand-Alone)	\$27.28	\$28.28
Felton (Stand-Alone)	\$61.86	\$64.45
Monterey-Felton Combined (Combined Rates)	\$28.25	\$29.30
2" meter		
Monterey (Stand-Alone)	\$218.24	\$226.24
Felton (Stand-Alone)	\$494.91	\$515.59
Monterey-Felton Combined (Combined Rates)	\$225.99	\$234.36

2 * These rates have constants added into calculated values.

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2 **Appendix B: Felton 2005 Rates (Approved, but not yet implemented)****APPENDIX B****Page 1**

California-American Water Company
Schedule No. FE-1
Felton Tariff Area
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Felton and vicinity, Santa Cruz County.

RATES**Quantity Rates:**

Per Meter
Per Month

For all water delivered, per 100 cu.ft.

\$ 3.731 (I)

	<u>Per Meter Per Month</u>	<u>Per Meter Per Month</u>
	<u>Service charge</u>	<u>SDWBA Surcharge 1/</u>
For 5/8 x 3/4-inch meter	28.16 (I)	\$ 11.50
For 3/4-inch meter	42.25 (I)	17.26
For 1-inch meter	70.40 (I)	28.76
For 1 1/2-inch meter	140.61 (I)	57.52
For 2-inch meter	225.20 (I)	92.03
For 3-inch meter	422.45 (I)	172.55
For 4-inch meter	704.06 (I)	287.59

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the charge for water used computed at the quantity rates.

Conservation Discount

The following conservation discounts will be applied to the service and quantity charges.

<u>Monthly Consumption</u>	<u>Discount</u>
0-5 CCFs	20.00%
6-10 CCFs	15.00%
11-15 CCFs	10.00%
Over 15 CCFs	0.00%

The percentage discount will be calculated based upon the customer's bi-monthly consumption.

(Continued)

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1 **Appendix C: Monterey 2005 Tariff Rates (Based on PUC Standard**
 2 **Rate Design)**

California American Water
 Monterey Tariff Area
TARIFF RATES
BASED ON THE PUC STANDARD RATE DESIGN
THIS IS NOT AN ACTUAL MONTEREY TARIFF

RATES

Per Meter
Per Month

Quantity Rate:

For all water delivered, per 100 cu.ft..... \$ 3.1371

Elevation Zone Surcharge:

Elevation Zone 1, per 100 cu. ft., 0.2461
 Elevation Zone 2, per 100 cu. ft., 0.4280

Service Charge:

For 5/8 x 3/4 inch meter.....	\$ 13.21
For 3/4 inch meter.....	\$ 19.82
For 1 inch meter.....	\$ 34.03
For 1-1/2 inch meter.....	\$ 66.05
For 2 inch meter.....	\$ 105.68
For 3 inch meter.....	\$ 198.15
For 4 inch meter.....	\$ 330.25
For 6 inch meter.....	\$ 660.50
For 8 inch meter.....	\$ 1,056.80

Private Fire Service Rates:

	<u>Per Month</u>
For each 4-inch connection and smaller ..	\$ 27.03
For each 6-inch connection ..	\$ 54.72
For each 8-inchconnection ..	\$ 86.54
For each 10-inchconnection.....	\$ 122.51
 For each Fire Hydrant Installed	 \$ 26.11

Appendix D: Actual and Estimated amounts in revenue shortfall
balancing account

CALIFORNIA AMERICAN WATER COMPANY
MONTEREY-FELTON CONSOLIDATION APPLICATION
A. 04-08-012
RESPONSE TO DATA REQUEST NO. 2
QUESTION 1

Q. (Felton) Please provide amounts in the balancing account established to track difference between revenues generated by current rates for the Felton District and the revenues generated by the approved but not implemented rates in D.04-05-023 by month since its inception. Also, please provide estimated amounts for the months December 2004 through June 2005. (ORA also requested this information via email on October 12, 2004. Please respond to this question immediately. Thank you.)

A. Felton:

<u>Deferred Revenue</u>	<u>Water Customers</u>	<u>Fire Customers</u>
May '04	\$5.16	\$50.43
Jun '04	\$8,029.28	\$87.92
Jul '04	\$26,234.56	\$51.26
Aug '04	\$16,187.40	\$87.92
Sep '04	\$28,951.93	\$51.26
Oct '04	\$21,211.30	\$87.92
Nov '04	\$24,791.96	\$51.26
Est Dec '04	\$21,329.09	\$87.92
Est Jan '05	\$24,815.70	\$51.26
Est Feb '05	\$18,451.29	\$71.44
Est Mar '05	\$18,091.19	\$32.06
Est Apr '05	\$15,573.48	\$54.96
Est May '05	\$18,091.19	\$32.06
Est Jun '05	\$15,573.48	\$54.96

ORA calculated the total revenues are estimated to be in the balancing account as of June 2005 by totaling the above table.

Total: \$258,189.64

Appendix E: Cause of revenue asymmetry in Exhibits D and E still unexplained.

Adjustment to Monterey non-production quantity rate:

In response to ORA Data Request #3, Cal Am told ORA that an error was made in the development of the rate design for the Monterey stand-alone rates and that the non-production quantity rate at present was changed to ensure that the revenue requirement at stand-alone proposed rates was met. The company said that a “hard-coded entry” was made to fix this error:⁵⁸

(ORA Q#1) Please explain specifically what error was made in the Monterey stand-alone rate calculation in Exhibit D and what was done to correct it. Please provide supporting Excel spreadsheet(s) that shows the origin of where changes were made to Tables 2-7 both before and after the error was corrected. In addition, please also provide Excel spreadsheet(s) for Tables 2-7 for Felton and Monterey as shown in Attachments 1 and 2 to your rebuttal testimony.

(Cal Am response) An error was made in the development of the rate design for the stand-alone rates to meet the revenue requirement. The non-production quantity rate at present was changed to ensure that the revenue requirement at stand-alone rates was met. (See Reporter’s Transcript, Vol.3, p. 143:10-28 (California American Water/Stephenson)) The supporting Excel spreadsheet is attached as DSB #3-1 Attachment. The change can be found in Monterey Stand-Alone Rates Tab in ROW 9. A hard-coded entry was made. Excel spreadsheets for Tables 2-7 for Felton and Monterey (new Exhibits J and K)) are also included in DSB#3-1Attachment.” (January 5, 2005)

ORA wants to ensure that the combined rate calculation works properly to balance the revenues so that Monterey ratepayers will not be paying more under the combined scenario than Felton ratepayers will be saving. Cal Am has not satisfactorily explained the cause for the previous asymmetry in revenues. Cal Am’s “hard-coded” entry is unsubstantiated.

Unexplained adjustment to Felton production rate:

In addition to the above adjustment, ORA found that the company also modified Felton production rate by hard-coding an adjustment to each year. The Felton production rate underlying Exhibits E and G, was revised in Exhibits K and M. These rates were increased by varying percentages -- as much as 38% in 2009 -- by adding an unexplained and different amount to each year’s production rate and not through a revision to the underlying rate design calculations, which

⁵⁸ Cal Am response to ORA Data Request #3, Question 1, January 5, 2005.

remain the same. In Table E below, ORA shows the Felton production rate calculated by Cal Am in its *RATEDESIGN* spreadsheet in the file, “*Combined Monterey and Felton – Updated for Error*” supplied to ORA in response to ORA Data Request 5; then what was added in the *Combined Rates* spreadsheet to come up with the revised rate used in Exhibit K and M.⁵⁹

Table E: Unexplained Adjustments to Felton Production Rate

	2006	2007	2008	2009	2010
Felton non-production (per <i>RATEDESIGN</i>)	\$0.750	\$0.770	\$0.790	\$0.810	\$0.840
Adder (per <i>Combined Rates</i>)	\$0.035	\$0.120	\$0.190	\$0.310	\$0.018
Felton production used in Exh K & M	\$0.785	\$0.890	\$0.980	\$1.120	\$0.858
Percent increase	4.67%	15.58%	24.05%	38.27%	2.14%

Cal Am did not identify this change, nor did they provide ORA with any explanation regarding the source of the error in the Felton combined production rate. The adder made to each year is unsubstantiated.

Unexplained adjustment to Felton stand-alone residential metered revenue:

Cal Am also subtracted varying amounts (up to 1.5% of the total) from Felton stand-alone residential metered revenue to get the values shown in Exhibit K. Cal Am did not flag this adjustment, give any reason for it or justify the quantities subtracted from the stand-alone revenues.

It does not appear that Exhibits N, O, P and Q have these kinds adjustments insofar as ORA was able to determine with the spreadsheets supplied thus far. While the previous asymmetry in revenues under district consolidation is much reduced, there is still some asymmetry in those exhibits. To have confidence in Cal Am's combined rate model, Cal Am should have identified the source of the error in the original exhibits and explained the cause, and then fixed the error at the source.

⁵⁹ Cal Am provided ORA with the Excel file, “*Combined Monterey and Felton – Updated for Error*” with a number of spreadsheets to provide the underlying support for Exhibits J, K, L and M.

1 Appendix F: Stand-alone Bill Comparison – 2005 to 2010

5/8 - INCH METER		Bill (Dollars)		(Data from Exh L & M, except for 2005 which uses currently authorized rates. 2005 Felton rates not yet implemented.)	
2005					
Usage	Monterey	Felton	Difference	Percent*	
Ccf					
0	13.21	26.06	-\$12.85	-49.3%	
5	28.90	45.35	-\$16.45	-36.3%	
10	44.58	68.69	-\$24.11	-35.1%	
20	75.95	94.44	-\$18.49	-19.6%	
50	170.07	273.75	-\$103.68	-37.9%	
100	326.92	514.92	-\$188.00	-36.5%	
2006					
Usage	Monterey	Felton	Difference	Percent	
Ccf					
0	17.20	26.06	-\$8.86	-34.0%	
5	39.55	45.35	-\$5.80	-12.8%	
10	61.90	68.69	-\$6.79	-9.9%	
20	106.60	94.44	\$12.16	12.9%	
50	240.71	273.75	-\$33.04	-12.1%	
100	464.21	514.92	-\$50.71	-9.8%	
2007					
Usage	Monterey	Felton	Difference	Percent	
Ccf					
0	\$17.99	\$28.05	-\$10.06	-35.9%	
5	\$47.18	\$48.22	-\$1.04	-2.1%	
10	\$76.36	\$72.66	\$3.70	5.1%	
20	\$134.73	\$99.62	\$35.11	35.2%	
50	\$309.85	\$287.18	\$22.67	7.9%	
100	\$601.71	\$539.30	\$62.41	11.6%	
2008					
Usage	Monterey	Felton	Difference	Percent	
Ccf					
0	18.62	29.99	-\$11.37	-37.9%	
5	58.85	51.01	\$7.84	15.4%	
10	99.08	76.53	\$22.55	29.5%	
20	179.55	104.69	\$74.86	71.5%	
50	420.94	300.29	\$120.65	40.2%	
100	823.27	563.10	\$260.17	46.2%	
2009 Usage					
Ccf	Monterey	Felton	Difference	Percent	
0	19.18	31.91	-\$12.73	-39.9%	
5	77.92	53.78	\$24.14	44.9%	
10	136.66	80.38	\$56.28	70.0%	
20	254.14	109.72	\$144.42	131.6%	
50	606.57	313.29	\$293.28	93.6%	
100	1,193.96	586.70	\$607.26	103.5%	
2010 Usage					
Ccf	Monterey	Felton	Difference	Percent	
0	19.96	33.79	-\$13.83	-40.9%	
5	79.34	56.52	\$22.82	40.4%	
10	138.73	84.19	\$54.54	64.8%	
20	257.49	114.71	\$142.78	124.5%	
50	613.79	326.31	\$287.48	88.1%	
100	1,207.62	610.39	\$597.23	97.8%	

* Percent indicates the percentage Monterey rates are higher or lower compared to Felton rates.

2

1 **Appendix G: Dissent of Commissioner Richard A. Bilas to D.00-06-075**

2 This decision approves single tariff pricing for eight water districts that
3 comprise Southern California Water Company' s (SCWC's) Region III, located in
4 Southern California. These water systems are not contiguous and none are
5 physically interconnected. All districts have diverse water sources. Under this
6 pricing mechanism current district rates will be equalized. Numerous customers
7 will subsidize or pay a portion of the cost-of-services provided to customers
8 residing in more sparsely populated districts where some of the current rates are
9 high. I cannot support this rate subsidization because I believe that the decision
10 provides insufficient evidence to justify departing from cost-based rates at this
11 time. I find that this pricing mechanism imposes substantial risks on certain
12 customers with no opportunity for those customers to see a reward.

13 It is true that the water industry is a rising cost industry. But the solution
14 provided here does not attempt to reduce the costs of complying with new water
15 quality regulations or replacing aging infrastructure. SCWC has made it clear
16 that if this proposal is adopted there will be no reduction in costs. Instead, this
17 solution simply shifts those costs to other customers.

18 The primary arguments in support of this proposal are rate stability and
19 affordability. But in this case, affordability for a few is provided at a significant
20 cost to many. This average pricing method requires that all customers in
21 SCWC's larger, lower-cost districts subsidize all customers in the smaller, high-
22 costs districts. Indeed, poorer customers in lower cost districts will subsidize
23 wealthier customers in high cost districts. I find this economically inefficient and
24 highly discriminatory.

25 In addition, this pricing mechanism will reduce efficiency. Consumption
26 would be encouraged in the more expensive districts, and conservation would be
27 undermined exactly where it is needed most. There may be customers from
28 whom we would like to see consumption increase, but a lifeline rate would
29 achieve a similar result for those customers without eliminating the necessary
30 price signals for all other customers.

31 SCWC's application and its presentation appear driven in part by the
32 dilemma of the impoverished people in the districts of Calipatria-Niland and
33 Desert. No doubt many, perhaps most of the customers in those districts need
34 relief from high water rates so that they can continue to consume water in an
35 amount adequate to insure their well being. However, that does not mean that
36 all customers in those districts require relief from existing or projected rates or
37 that the low-income ratepayers of subsidizing districts should be disregarded
38 because their current rates are comparatively low.

1 If SCWC's application were confined to providing assistance to the poor
2 people of Calipatria-Niland, the Desert and other districts, then I would
3 enthusiastically support it. The one aspect of the decision that I support is the
4 requirement that SCWC file an application for a lifeline rate. However, I am
5 concerned that if this Commission adopts a surcharge to fund lifeline rates,
6 combined with the single-tariff pricing subsidy adopted in this decision, may
7 create a new affordability problem for many customers.

8 In theory, this pricing mechanism is supposed to provide each district
9 with its "turn" at being subsidized. For example, under current rates, customers
10 from Orange district will be overcharged to subsidize customers in the Desert
11 districts, and one day in the future customers from the Desert Valley districts
12 will be overcharged to subsidize customers from Orange. However, in the chart
13 located at pages 8-9 of the PD, SCWC projects a comparison of regional rates and
14 stand-alone district rates during the 17 year period beginning in 1999 and ending
15 in 2015. With regional rates, the 52,000 customers residing in the districts of
16 Orange (40,000 customers) and San Gabriel (12,000 customers) will pay each and
17 every year more than the cost of their district-based water service to support the
18 cost-of-service of customers in other districts. The 6700 customers of the Desert
19 (3000 customers), Wrightwood (2500 customers) and Calipatria-Niland (1200
20 customers) Districts will financially benefit each of the 17 years by paying less
21 than their district's cost of water service. I find it difficult to see how a small
22 district in an arid region with significant water quality problems will ever be in a
23 position to subsidize another district. It is far more likely that Orange or a
24 similar district will continue to subsidize the smaller districts into perpetuity.

25 In summary, it is clear to me that this decision does not strike an
26 appropriate balance between the interests of SCWC and the majority of its
27 ratepayers. SCWC will benefit, as the rate stabilization will allow it to better earn
28 its rate of return. SCWC will also benefit by gaining an advantage over other
29 utilities in its ability to acquire other systems and protection against competition
30 or the attempts of

other purveyors to acquire its system. But the majority of Southern California Water Company's ratepayers will not benefit. The proposal will produce no economies of scale, no management, administrative, financing or operational efficiencies. There will be no affect on the cost or the manner of running the systems. Subsidizing ratepayers will get no benefit.

/s/ RICHARD A. BILAS

RICHARD A. BILAS

Commissioner

San Francisco, California

June 22, 2000

Appendix H: Background on Affordability of Water Service

For many small water districts, affordability of water service is a growing concern. The water industry is a rising cost industry, one faced with increasing costs over the next several decades as it attempts to comply with new water quality regulations and replace aging drinking water infrastructure. As the Commission noted in D.00-06-075, “In terms of capital investment for revenue dollar, the provision of water service is the most capital intensive public utility service.”⁶⁰ There's no question that affordability of water service is a growing concern for customers of small water systems. These systems have limited opportunity to distribute the cost burden of the required new investments in infrastructure, since smaller systems must recover revenue requirements over a smaller customer base. Required new investment could more than double a household water bill in a small district. Household bills are often high already, and in many districts, a majority of the customers are low-income, leaving few other households to shoulder the burden.

Affordability of water has been defined as monthly water bills that do not impose undue economic hardship on low or fixed-income households in the service area. Water rates should be low enough so that low-income customers will not have to displace other essential services (food, energy, medical care, etc.) to pay their water bills.⁶¹ Affordability is a function of both the price of water service, the quantity of water consumed and the ability of households to pay for that service. There are a number of ways to address the problem of affordability of water service in small systems. Options include the gradual phase-in of rate increases, regionalization, single-tariff pricing, special payment arrangements, and the low-income customer assistance programs. The question is which solution or solutions best serves the public interest in a given case?

⁶⁰ D.00-06-075, pg. 27.

⁶¹ Raucher, Bob, Presentation on “Affordability of Water Service” to the NAWC Annual Conference in Palm Springs, California, October 13, 2004.

Appendix I – Ratemaking differences between district and consolidated rates

How are rates in California set now?

Traditionally in California, water rates are set by districts for Class A water utilities. Elevation, climate, physical terrain, the age of the infrastructure, the density of the service population and other factors all affect cost of service. “Differences in the proximity to water sources, the type of source (surface water versus groundwater), the quality of the source water, and implemented treatment methods will tend to produce substantial cost differences.”⁶² Districts tend to represent geographic clusters of customers with similar cost characteristics.

Unlike other utility industries, each district in a multi-district water utility undergoes the general rate case review every three years.

How do consolidated rates or single-tariff pricing differ from district rates?

Consolidated rates use a unified rate structure for multiple water systems that are owned and operated by a single utility. All customers pay the same rate for service even though individual systems may vary in terms of the number of customers served, operating characteristics and stand alone costs. Single tariff pricing aggregates costs and averages them over a broader customer base.

What are the advantages of rate consolidation?

Single tariff pricing or consolidated rates has both advantages and disadvantages. When properly structured, advantages of consolidated rates include rate and revenue stability, improved affordability for customers of small systems and protection against rate shock since costs are allocated over broader customer base however these advantages. “A leading argument for single tariff pricing made by multi-system water utilities is that each individual system eventually will require an infusion of capital for renovations and improvements; only the timing varies. Equalizing rates smoothes the effect of discrete cost spikes across systems and over time, much like insurance pooling. Single tariff pricing also achieves equity to the extent that all customers of a given utility pay the same price for comparable service.”⁶³

⁶² Ibid. Page 13.

⁶³ *Consolidated Water Rates: Issues And Practices In Single Tariff Pricing*, September 1999. A Joint Publication Of The US Environmental Protection Agency and The National Association Of Regulatory Utility Commissioners. Page 4.

1 *What are the tradeoffs or disadvantages to single-tariff pricing?*

2 However there's a trade-off between these advantages and other goals such as
3 economic efficiency and cost-based ratemaking. Single tariff pricing undermines
4 economic efficiency and distorts price signals. It conflicts with traditional cost of
5 service principles by breaking the link between cost and rates.

6 Economic theory argues for setting rates that are based on the true cost of
7 providing service and are equitable in terms of allocating those costs. Cost-based
8 rates send price signals that result in efficient resource use – matching supply
9 with demand. Fair and equitable cost allocation suggests those who impose
10 similar costs should pay the same rate, and those who impose different costs
11 should pay different rates reflective of those cost differences.

12 While there is some cost averaging in virtually all methods of utility rate design,
13 single tariff pricing may result in an inappropriate level of subsidy or undue
14 price discrimination where high-cost customers are subsidized at the expense of
15 low-cost customers. Once consolidated rates are instituted in an area, it is hard
16 to go back.

17

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Appendix J – Cal Am’s Monterey Low Income Rate Assistance Program



www.calamwater.com

Program for Alternative Rates (PAR) Application

Mail Completed Application to:

California American Water, P.O. Box 578, Alton, IL 62002-0578

For Questions Call: 1-888-237-1333

ABOUT THE PROGRAM

At California American Water, we believe fresh, clean water is a resource that should be made available to everyone. That is why we have developed the Program for Alternative Rates (PAR) to help provide assistance to low-income families.

With PAR, eligible members are determined based on a household's gross yearly income. To see if your household qualifies for PAR, please refer to the income guidelines that follow. If your household meets the necessary requirements, assistance will be provided to you in the form of a monthly discount in your water charges.

To apply for PAR, simply fill out the application on the reverse side and mail it along with proof of income to the address listed above. For further information about PAR or your California American Water service, please call us at (888) 237-1333 or visit us on the Web at www.calamwater.com.

TO QUALIFY FOR PAR

- The California American Water bill must be in your name.
- You may not be claimed as a dependent on another person's tax return.
- Your total annual income cannot exceed the chart below. Total income means the total income of ALL persons living full-time in your home as reported on Federal Income Tax Form 1040.
- You must present documentation showing approval into PG&E's California Alternate Rate for Energy (CARE) Program or provide verification of your household income* to be considered for PAR.
- California American Water must be notified within 30 days of becoming ineligible for PAR.
- The Program for Alternative Rates (PAR) is available to customers in the Monterey system as well as Hidden Hills and Ryan Ranch. The program does not apply to customers in Amber, Bishop, Chualar or Ralph Lane.

INCOME GUIDELINES

(Effective June 1, 2004 to May 31, 2005)

Number of Persons in Household	Total Combined Annual Income
1-2	\$ 23,400
3	\$ 27,500
4	\$ 33,100
5	\$ 38,700
6	\$ 44,300
Each Additional	\$ 5,600

*Forms of verification: Federal Income Tax Form 1040 including W-2 Forms. If self-employed, please include Schedule C.

**For Assistance Call
1-888-237-1333
or visit www.calamwater.com**

AW-CA-L204-2





Program for Alternative Rates (PAR) Application

www.calamwater.com

Mail Completed Application to:

California American Water, P.O. Box 578, Alton, IL 62002-0578

For Questions Call: 1-888-237-1333

Please fill out the form below and attach the following:

1. PG&E statement showing acceptance into the CARE Program, or Federal Income Tax Form 1040.
2. California American Water bill.

CALIFORNIA AMERICAN WATER CUSTOMER INFORMATION: (please type or print)

Customer Account Number

Name
As it appears on your bill

Home Address City CA Zip Code
Do NOT use a P.O. Box

Mailing Address City CA Zip Code
If different from the above address

Daytime Telephone Number
Please Include Area Code

Number of people living in your household Adults + Children = Total

MAXIMUM HOUSEHOLD INCOME: (effective June 1, 2004 to May 31, 2005)

Your household's gross annual income may not exceed these CARE income guidelines.

Number of Persons in Household	1 or 2	3	4	5	6
Total Combined Annual Income	\$23,400	\$27,500	\$33,100	\$38,700	\$44,300

Add \$5,600 for each
additional household member

HOUSEHOLD INCOME WORKSHEET (please fill in circle next to all sources of your household's annual income)

- | | | |
|--|--|---|
| <input type="checkbox"/> Wages or Salaries | <input type="checkbox"/> School Grants, Scholarships or other aid used for living expenses | <input type="checkbox"/> Insurance settlements |
| <input type="checkbox"/> Interest and/or Dividends from: | <input type="checkbox"/> Profit from self-employment (IRS form Schedule C, Line 29) | <input type="checkbox"/> Legal Settlements |
| <input type="checkbox"/> Savings Accounts, | <input type="checkbox"/> Disability payments | <input type="checkbox"/> TANF (AFDC) |
| <input type="checkbox"/> Stocks or Bonds, or | <input type="checkbox"/> Workers compensation | <input type="checkbox"/> Food Stamps |
| <input type="checkbox"/> Retirement Accounts | <input type="checkbox"/> Social Security, SSI, SSP | <input type="checkbox"/> Child Support |
| <input type="checkbox"/> Unemployment Benefits | <input type="checkbox"/> Pensions | <input type="checkbox"/> Cash and/or other income |
| <input type="checkbox"/> Rental or Royalty Income | | <input type="checkbox"/> Spousal support |

Total Annual Household Income: \$

DECLARATION: (please read carefully and sign below)

I state that the information I have provided in this application is true and correct. I agree to provide proof of income. I agree to inform California American Water if I no longer qualify to receive the discount. I understand that if I receive the discount without qualifying for it, I may be required to pay back the discount I received. I understand that California American Water can share my information with other utilities or their agents to enroll me in their assistance programs.

X

California American Water Customer Signature ☐ fill in circle if guardian or power of attorney Date

Appendix K: Partial List of Cal Am Special Rate Requests in the Monterey GRC

The follow is a partial list of Cal Am special rate (SR) requests for the Monterey area:

- (SR #1) Approval for a fixed monthly surcharge to cover all Cal Am's historic stranded costs related to Carmel River Dam and Reservoir Project which is no longer a viable solution to the area water supply problems;
- (SR #2) Approval to recover all **pre-construction costs** for the Coastal Water Project (CWP) – made up of a desalination plant and aquifer storage and recovery component – over 8 years. These costs are estimated to exceed \$15 million;
- (SR #3) Approval to recover costs of actually constructing the CWP (over \$150 million). Specifically, Cal Am proposes:
 - ☐ A connection fee tariff for all new services
 - ☐ A \$2/unit of water surcharge to final block rate for each customer rate class, as contribution.
 - ☐ A \$1/unit surcharge in 2007, and \$2/unit surcharge starting in 2008 to partially pay the carry costs of the CWP;
- (SR #5) Approval of a memorandum account to track any fines Cal Am may be required to pay for Endangered Species Act (ESA) violations as well as costs of complying with the ESA;
- (SR #6) Approval of a memorandum account for Monterey Peninsula Water Management District (MPWMD) emergency conservation and rationing costs.
- (SR #7) Approval of a 1% water conservation surcharge to fund MPWMD activities. (Currently Cal Am customers in MPWMD area pay 7.125% surcharge for Carmel River environmental mitigation expenses.);
- (SR #8) Establishment of a memorandum account for State Water Resources Control Board Fines (SCRCB) fines as a result of water consumption exceeding SWRCB mandated production limits;
- (SR #9) Approval of a memorandum account to track increased expenses that Cal Am would incur in the event of rationing; and approval of a usage surcharge to pay for rationing expenses.
- (SR #12) Approval for increasing the after hours reconnection fee from \$15 to \$50;

Appendix L – Diana S. Brooks, Qualifications

Q1: Please state your name, business address, and position with the California Public Utilities Commission (CPUC).

A1: My name is Diana S. Brooks and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a Public Utility Regulatory Analyst V in the Water Branch of the Office of Ratepayer Advocates (ORA).

Q2: Please summarize your educational background.

I received my Bachelor of Science degree in Cybernetics from the University of California at Los Angeles (UCLA) in 1977 and a Masters of Business Administration degree from UCLA in 1982.

Q3: Please summarize your business experience.

A3: Prior to joining the CPUC in 1989, I taught business mathematics and statistics in the School of Business at San Francisco State University for four years. While at the CPUC, I have worked on projects in energy, telecommunications, transportation and water. I have researched, analyzed and developed reports and testimony on various complex public policy issues. I am the Project Manager for ORA on the new rate case plan for Class A water utilities.

In 1997, I served as the Chair of the Low Income Governing Board (LIGB) during its formative year. I directed Board activities, managed the Board's \$2 million annual budget and supervised the work of outside attorneys and consultants to accomplish the CPUC mandate of setting up a new structure for California's \$180 million low income energy assistance programs.

For the last four years, in addition to my other responsibilities, I have served as an ORA legislative liaison, lobbying on behalf of ratepayers at the Legislature primarily in the area of telecommunications, and more recently water.

Q4: What is your responsibility in this proceeding?

A4: I am responsible for the entire report in this proceeding.

Q5: Does this conclude your prepared direct testimony?

A5: Yes, it does.